United States Court of Appeals

for the

District of Columbia Circuit

TRANSCRIPT OF RECORD

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Court of Appeals, District of Columbia

OCTOBER TERM, 1912.

No. 2444.

938

BAUER & CIE AND THE BAUER CHEMICAL COMPANY, APPELLANTS.

vs.

JAMES O'DONNELL.

APPEAL FROM THE SUPREME COURT OF THE DISTRICT OF COLUMBIA.

FILED JULY 17, 1912.

PRINTED AUGUST 20, 1912.

COURT OF APPEALS OF THE DISTRICT OF COLUMBIA

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JUDD & DETWEILER (INC.), PRINTERS, WASHINGTON, D. C., AUGUST 10, 1912.

In the Court of Appeals of the District of Columbia.

No. 2444.

BAUER & CIE et al., Appellants,
vs.
JAMES O'DONNELL.

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a Supreme Court of the District of Columbia.

No. 30233. In Equity.

BAUER & CIE and THE BAUER CHEMICAL COMPANY, Plaintiffs,
vs.
JAMES O'DONNELL, Defendant.

UNITED STATES OF AMERICA,
District of Columbia, ss:

Be it remembered, That in the Supreme Court of the District of Columbia, at the City of Washington, in said District, at the times hereinafter mentioned, the following papers were filed and proceedings had, in the above-entitled cause, to wit:

1 *Bill of Complaint.*

Filed June 8, 1911.

In the Supreme Court of the District of Columbia.

In Equity. No. 30233.

BAUER & CIE and THE BAUER CHEMICAL COMPANY, Plaintiffs,
vs.
JAMES O'DONNELL, Defendant.

To the Honorable Judges of the Supreme Court of the District of Columbia:

1. Johann Abraham von Wülfing and Ernest Möller, residing at Berlin, Germany, and doing business in partnership under the name of Bauer & Cie at Berlin, Germany, and Frederick W. Hehmeyer, residing in the City of New York, State of New York, and

doing business in the City of New York under the trade name and style, The Bauer Chemical Company, bring this, their bill of complaint against James O'Donnell, having a regular and established place of business and having committed the acts of infringement hereinafter complained of within the District of Columbia, at No. 904 F Street, N. W., in the City of Washington in said District, and thereupon your orators complain and say:

2. That, as your orators are informed and believe, and accordingly aver, Felix Bauer, a subject of the King of Saxony and a resident of Berlin, and Albert Busch a subject of the Duke of Brunswick and a resident of Elberfeld, in the Kingdom of
2 Prussia, German Empire, were prior to the 1st day of March 1898, the original, first and joint inventors of a certain new and useful water soluble albumenoid product and process of manufacturing the same not known or used by others in the United States before their invention or discovery thereof, and not patented or described in any printed publication in this or any foreign country before their invention or discovery thereof or more than two years prior to their hereinafter recited application for patent therefor, and not in public use or on sale in this country for more than two years before their said application for Letters Patent, and not patented or caused to be patented by them or their legal representatives or assigns in any foreign country upon any application for foreign patent filed more than one year prior to the filing of their hereinafter recited application for patent for said invention, and not abandoned prior to said application.

3. And your orators further show unto Your Honors, the said Felix Bauer and Albert Busch being as aforesaid inventors of the said product and process, and being citizens of the country aforesaid made application in due form of law to the Commissioner of Patents of the United States for Letters Patent for their said invention of product and process, and by valid assignment, assigned to Bauer & Cie, of Berlin, Germany, a partnership, their whole right, title and interest in the aforesaid invention and application for Letters Patent therefor, and requested the Commissioner of Patents to issue to the said Bauer & Cie any Letters Patent that might be granted pursuant to their aforesaid application, and that
3 thereafter, and after due proceedings had in all respects, Letters Patent of the United States No. 601,995 signed by the Secretary of the Interior and countersigned by the Commissioner of Patents, were granted to the said Bauer & Cie, granting to them, their heirs or assigns, for the term of seventeen years from the 5th day of April 1898, the exclusive right to make, use and vend the aforesaid invention throughout the United States and the territories thereof, as by said Letters Patent or a duly certified copy thereof, ready in Court to be produced, will fully and at large appear, and that your orators, Bauer & Cie, have ever since the issuance of the said Letters Patent been, and now are, the sole owners of the legal title thereto.

4. Your orators further show that in or about the month of July 1907, they entered into an agreement whereby your orator F. W.

Hehmeyer, became and has ever since continuously been the sole agent and licensee for the sale in the United States of the product specified in the second claim of the aforesaid Letters Patent, with power to fix the price of sale of the same to wholesalers or distributors and to the retailer and to the public, and that said agreement provided that the said product should be furnished at manufacturing cost to your orator, F. W. Hehmeyer, and the net profits or returns obtained by your orator from the sale of said product in the United States should be shared by your orators after deduction of the expense of advertising.

5. And your orators further show that since July 1907 a large business has been done from year to year and is now being done by your orators in the sale of said product in the United
4 States under the trade-name Sanatogen and that the product so sold has been uniformly sold and supplied to the trade and the public by your orators and their licensees in sealed packages bearing the name Sanatogen and the words "Patented in U. S. A., No. 601,995.", and that since April 1910 all of said packages have also borne a notice in the following words and form, varying only as to price with the size of the package, to wit:

Notice to the Retailer.

"This size package of Sanatogen is licensed by us for sale and use at a price not less than one dollar ($1.00). Any sale in violation of this condition, or use when so sold, will constitute an infringement of our patent No. 601,995, under which Sanatogen is manufactured, and all persons so selling or using packages or contents will be liable to injunction and damages.

"A purchase is an acceptance of this condition. All rights revert to the undersigned in the event of violation.

$100

THE BAUER CHEMICAL CO."

6. Your orators further show that since the making of the aforesaid agreement they have invested and expended large sums of money, and have been to great trouble and expense in and about the product patented by the aforesaid Letters Patent, and for the purpose of carrying on the business of bringing to the notice of the public and selling said product in the United States, and making the same profitable to themselves and useful to the public, and that said invention has been and is of great benefit and advantage; and that ever since the year 1907 large quantities of the product forming said invention have been sold by your orators under the trade, name Sanatogen, to the great advantage of the public; and
5 that the public have generally acknowledged and acquiesced in the aforesaid rights of your orator; and your orators believe that they will realize and receive further large gains and profits from said rights if the infringements by said defendant hereinafter complained of shall be prevented.

7. And your orators further show that in selling the said pat-

ented product to dealers, whether wholesalers or retailers, your orator, Frederick W. Hehmeyer, has reserved to himself the right to fix the price of resale of said product, and that said reservation was made by your orator as part of a plan of commercially exploiting the product and promoting and widely distributing its sale by assuring to dealers dealing in said product a fair profit upon the business of re-selling the product furnished by your orators, and that the persistent wrongful acts of the defendant herein complained of have the effect of discouraging dealers in the same and other communities and who are customers of your orators, from giving further orders for the said product to the manifest injury of your orators' business, and to their enjoyment of the exclusive rights under said patent.

8. Your orators further show that the defendant, prior to the wrongful acts herein complained of, was furnished by your orators with original packages of the said patented product, and was advised orally, and by the aforesaid printed notice and repeatedly by letter of the restriction as to the price of re-sale, and the right to fix said price reserved to your orators, and retained said packages but nevertheless sold them in violation of said restriction; and that

6 the said defendant, upon being warned that his acts were an infringement of your orators' rights, professed his desire and willingness orally, and in writing, to refrain from such infringing acts, and was thereupon supplied with further quantities of said patented product, bearing the aforesaid notice, but that said defendant instead of maintaining the price of re-sale fixed by your orators, sold such further supplies in violation of the rights of your orators and of the restriction contained in the printed notice aforesaid; and that your orators, after repeated violations of their rights by the said defendant, refused to further supply, and after the 10th day of March, 1911, did not supply, the defendant with said patented product;

Yet the defendant, well knowing the premises and the rights reserved to your orators as aforesaid, but contriving to injure your orators, and deprive them of the benefits and advantages which might and otherwise would accrue under them from said invention, after the issuing of the said Letters Patent as aforesaid, and after the 10th day of March, 1911, and before the commencement of this suit, did, as your orators are informed and believe and accordingly aver, without the license or consent, and against the will of your orators, and in violation of their rights reserved to them as aforesaid, and in infringement of the aforesaid Letters Patent, within the District of Columbia, unlawfully and wrongfully, and in defiance of the rights of your orators, sell the aforesaid patented product, and threatens to and avers that he will continue to sell the

7 same in infringement of your orators' exclusive rights, all in defiance of your orators' rights secured by the aforesaid Letters Patent and to their great and irreparable loss and injury, by which they have been and still are being deprived of great gains and profits which they might and otherwise would have obtained.

9. And your orators further show on information and belief that said defendant has sold large quantities of said product since the 10th day of March, 1911, in infringement of your orators' rights, and has a large quantity on hand which he is offering for sale in infringement of your orators' rights, and threatens to obtain for sale in infringement of your orators' rights large quantities of said product, and by such infringing acts has made and realized large profits and advantages, but to what extent and how much exactly, your orators do not know and pray discovery thereof, and your orators further say that the sale of said patented product by said defendant in violation of the rights reserved to your orators to fix the price of resale to the public, and his preparation for and avowed determination to continue the infringing sales, and his other aforesaid unlawful acts in disregard and defiance of the rights of your orators, have the effect to and do encourage and induce others to infringe said patent to your orators' great injury.

10. And your orators further show unto your Honors that they have given notice to the public that the product patented as aforesaid by the second claim of the patent and supplied to the trade under the trade name of Sanatogen is patented by affixing to the packages containing the same the printed notice aforesaid
8 and by informing dealers generally and likewise giving notice to defendant that the Sanatogen supplied to him is patented, and of the rights of your orators in the premises and have requested him to desist and refrain from his infringement of said rights, but he has disregarded said notice and refused to desist from said infringement and still continues to sell the said patented product in violation of the restriction as to selling-price contained in the printed notice.

To the end therefore that the defendant may, if he can, show why your orators should not have the relief herein prayed for and may, according to the best of his knowledge, information, remembrance and belief, full, true, and perfect answer make, (but not under oath, an answer under oath being expressly waived) to all and singular the matters herein stated and charged, as fully and particularly as if the same were here repeated and the defendant specially interrogated as to each and every of such matters; and that by a decree of this Court the defendant may be compelled to account for and pay over to your orators all damages which your orators have sustained or shall sustain on account of the defendant's infringement of said Letters Patent, together with all gains and profits resulting to the defendant from said infringement; and that your Honors may increase the actual damages found and decreed to a sum equal to three times the amount of the same under the circumstances of the willful, flagrant and unjust infringement of said defendant, as herein set forth; and that the defendant, his clerks, agents, servants, officers and employees may be rest*ar*ined permanently and during the pendency of this suit, by an injunction, from selling the aforesaid patented product in infringe-
9 ment of the rights secured to your orators by said patent and reserved to them; and that he may be decreed to pay the

costs of this suit and that your orators may have such other and further relief as the nature of this case may require and to this Court may seem meet:

May it please your honors to grant unto your orators not only a writ or writs of injunction restraining, permanently and during the pendency of this suit, the said defendant, his clerks, agents, servants, officers and employés from selling the aforesaid patented product in infringement of the rights secured to your orators by said patent and reserved to them, but also a writ of subpœna ad respondendum, issuing out of and under the seal of this Honorable Court and directed to the said James O'Donnell, commanding him to appear and answer unto this bill of complaint, and to perform and abide by such order and decree herein as to this Court shall seem meet and to be required by the principles of equity and their good conscience.

BAUER & CIE,
By HENRY C. TOWNSEND, *Solicitor.*
THE BAUER CHEMICAL COMPANY,
FREDERICK W. HEHMEYER.

HENRY C. TOWNSEND,
Solicitor and of Counsel for Plaintiff.

STATE OF NEW YORK,
County of New York, ss:

On this 7th day of June 1911, before me personally appeared F. W. Hehmeyer and made oath that he is one of the plaintiffs named in the foregoing bill; that he has read the foregoing bill subscribed to by him and knows the contents thereof; and that the same is true of his own knowledge except as to the matters therein stated to be alleged on information and belief and that as to those matters he believes it to be true.

[SEAL.] ARTHUR M. PLYER,
Notary Public.

Subpœna.

Issued June 8, 1911.

* * * * * * *

The President of the United States to James O'Donnell, Defendant:

You are hereby commanded to appear in this Court on or before the tenth day, exclusive of Sundays and legal holidays after the day of the service of this subpœna upon you and answer the exigency of the Original Bill, under pain of attachment, and such other process of contempt as the Court shall award; and if your appearance in this suit be not entered in the Clerk's Office within said time the bill may — taken for confessed.

Witness, The Honorable Harry M. Clabaugh Chief Justice of said Court, the 8th day of June, A. D. 1911.

JOHN R. YOUNG, *Clerk,*
By W. E. WILLIAMS,
Assistant Clerk.

HENRY C. TOWNSEND, *Attorney.*

Marshal's Return.

Served copy of within on James O'Donnell, personally, June 8, 1911.

AULICK PALMER, *Marshal.*
S.

11 *Motion for Injunction.*

Filed June 26, 1911.

* * * * * * *

Now come the complainants in the above-entitled suit, Johann Abraham Wülfing and Ernest Müller, doing business in partnership under the name of Bauer & Cie, and Frederick W. Hehmeyer, doing business under the trade name and style The Bauer Chemical Company, by Henry C. Townsend, Complainants' Solicitor, and move this Honorable Court to grant a writ of injunction against James O'Donnell, the above-entitled defendant, his clerks, agents, servants, officers and employees, pending this suit, and until a further order of the Court conformable to the prayer of the Bill in said case filed;

In support of their motion complainants pray leave to refer to a certified copy of original United States Letters Patent No. 601,995 issued to Bauer & Cie: a certified copy of the file wrapper contents and drawings upon which said Letters Patent were granted; a certified copy of the Abstract of Title of said Letters Patent; a certified copy of the Assignment from Felix Bauer and Albert Busch, who applied for said Letters Patent, to Bauer & Cie, all said certified copies being filed herewith. Also to the original Bill of Complaint filed herein and to the annexed affidavits of Frederick W. Hehmeyer, Edith F. Gill, Mrs. George W. Silsby, Henry N. McFarland, Alfred H. Kennedy, Thomas B. Stillman, and to the Exhibits referred to in said affidavits.

JOHANN ABRAHAM WULFING,
ERNEST MULLER,
As Bauer & Cie.

12 FREDERICK W. HEHMEYER,
As the Bauer Chemical Co.,
By HENRY C. TOWNSEND,
Their Solicitor.

* * * * * * *

Please take notice that on the 6th day of July, 1911, at 10 o'clock a. m. or as soon thereafter as counsel can be heard, I shall move for a preliminary injunction as prayed in the Bill of Complaint herein, based upon the original Bill of Complaint, certified copies of the original Letters Patent in suit, the file wrapper contents of the application upon which said patent was granted, the assignment of the applicants for said patent to complainants herein and an abstract of title of said patent, and the affidavits of Frederick W. Hehmeyer, Edith F. Gill, Mrs. George W. Silsby, Henry N. McFarland, Alfred H. Kennedy, Thomas B. Stillman, and the exhibits referred to in said affidavits, a true copy of which is herewith served upon you.

HENRY C. TOWNSEND,
Counsel for Complainants.

Service accepted this 26 day of June, 1911.

BAKER, SHEEHY & HOGAN,
Counsel for Defendant.

13 *Order Continuing Motion.*

Filed July 6, 1911.

* * * * * * *

Upon motion of defendant it is, by the Court, this 6th day of July, A. D. 1911, ordered that the motion for a restraining order pendente lite set for July 6, 1911, be and the same is, hereby continued until the 3rd day of August, A. D. 1911, or as soon thereafter as counsel can be heard, and leave is hereby given plaintiffs to file any additional affidavits in support of their motion.

THOS. H. ANDERSON, *Justice.*

Answer to Rule to Show Cause.

Filed August 4, 1911.

* * * * * * *

The defendant, James O'Donnell, answering the rule to show cause, says that the said Bauer & Cie and The Bauer Chemical Company, the parties entitled as plaintiffs in the above named cause, are, according to respondent's information and belief, unincorporated associations and not entitled to sue in their own names; whether or not they are composed of the persons mentioned in the first paragraph of said bill, respondent has no knowledge.

Further answering said rule, respondent says that the said
14 article Sanatogen is an article known to the trade and is sold by a large number of jobbers and wholesale druggists throughout the United States; that the said The Bauer Chemical Company sells its product to said jobbers and said wholesale druggists and receives the price agreed upon therefor; that said sale is

made outright, title passing from the said The Bauer Chemical Company to the said Jobbers and the said wholesalers, and that after said sale the said The Bauer Chemical Company has no right, title or interest in the said product Sanatogen; that the said The Bauer Chemical Company purchases the said Sanatogen from Bauer & Cie and by such purchase obtains title thereto; that the price paid by said jobbers and said wholesale druggists to The Bauer Chemical Company is either a cash price or a time price, the said jobbers and wholesale druggists receiving a discount for cash; that when said purchases are made by said jobbers and said wholesale druggists, the said plaintiff, The Bauer Chemical Company, ships said product Sanatogen to the purchaser thereof, and the said The Bauer Chemical Company ceases to have any right or interest therein; that this respondent did not purchase the product alleged in said bill to have been sold by him in infringement of the rights of the said plaintiff from the said plaintiffs, or either of them; that the said The Bauer Chemical Company, on April 4th, 1911, refused to sell to your respondent; that since the 10th day of March, 1911, the said plaintiff, The Bauer Chemical Company, did not supply your respondent with any of said product; that the "Sanatogen" which said bill charges this respondent with selling in infringement of their
15 alleged patent was acquired by this respondent from others than the plaintiffs, who had acquired the lawful ownership thereto, and your respondent refused to comply with "the notice to the retailer" on the ground that said notice is not binding upon him.

That after the said tenth day of March, 1911, your respondent purchased in the open market from wholesale dealers and jobbers of drugs the product Sanatogen, and placed the same on sale in his store and sold the same at any price that he fixed; that the said attempt on the part of the said plaintiffs to restrain your respondent from fixing a price on a drug which he has purchased in the open market is a violation of law and an attempt to restrain trade, an invasion of the rights of your respondent, an attempt to interfere with his lawful freedom of contract, to deprive him of his property without due process of law, and unconstitutional, null and void. That your respondent is informed and believes, and therefore avers, that the said wholesale druggists and jobbers from whom he bought said article purchased the same without any agreement as to retail price and acquired title without any qualification or condition, and that when your respondent purchased the said product from the said wholesalers and jobbers, he bought from them an article in which they had title and that by his purchase he obtained title to said article; and that your respondent, and your respondent alone, has the right to fix the price at which he will sell the same.

Your respondent further says that the said plaintiffs, or either of them, have no right by printing a "notice to the retailer"
16 on a package of said product to bind the retailer who has no contract or agreement with them to sell at the price printed thereon.

Your respondent further says that he entered into no contract with the plaintiffs, or either of them express or implied, to sell said product at a fixed price, but, on the contrary, he refused to make any such contract, although requested to do so; that he sells the said Sanatogen as an owner thereof from a purchaser who has title, and that he fixes the price of said product the same as he fixes the price of all products that he sells in his store, 904 F Street, Northwest; and that he proposes to so fix the price until it has been determined that he, as a retail dealer in the District, has no right to fix a price for an article which he owns and which he purchased from a person who owned the same without any agreement on his part to sell at a specific price.

Respondent further says, on information and belief, that said plaintiff, The Bauer Chemical Company, sells said product outright to wholesalers and jobbers at prices less than those set forth on the bottles containing the same, and for cash payments further reduces said prices; that said wholesalers, and jobbers freely sell said product in the open in the District of Columbia and elsewhere, to the full knowledge of said plaintiff, at prices less than the prices set forth as aforesaid; that said plaintiff in 1910 (when he sold Sanatogen to this respondent, which he has since refused to do) did so at prices less than those set forth on said bottles, and at
17 prices different from and lower than the prices asked of others similarly situated, said plaintiff, in a letter to the respondent dated November 6, 1910 (being Exhibit 6 W. C. K., N. P., filed by plaintiffs herein) saying:

"We believe we have given substantial evidence of a desire to assist you in the sale of Sanatogen in the way of a special concession from our trade prices, a concession we may say has not been granted to any other Washington dealer."

Respondent further says that any agreement that would limit him in his right to sell at a fixed price is utterly null and void, contrary to public policy and in violation of the "anti-trust" laws; and that should he perform the acts desired by the plaintiffs on his part to be performed, he would enter into a conspiracy with them to violate the said "anti-trust" laws of the United States.

Respondent prays that the rule heretofore laid upon him herein be discharged.

JAMES O'DONNELL,
Defendant.

BAKER, SHEEHY & HOGAN,
Attorneys for Defendant.

DISTRICT OF COLUMBIA, *ss:*

I, James O'Donnell, do solemnly swear that I have read the foregoing answer by me subscribed and know the contents thereof: that the matters and things therein set forth of my own personal knowledge are true and those stated on information and belief, I believe to be true.

JAMES O'DONNELL.

Subscribed and sworn to before me this 4 day of August, A. D. 1911.

J. R. YOUNG, *Clerk,*
By R. P. BELEW,
Ass't Clerk.

18 *Order Overruling Motion.*

Filed August 4, 1911.

* * * * * * *

Upon consideration of the bill of complaint, the motion for a preliminary injunction, the rule to show cause thereon and the answer of respondent thereto, it is, by the Court, this 4th day of August, 1911,

Ordered that the said motion be and the same is hereby overruled, and the said rule be and the same is hereby discharged.

By the Court:

JOB BARNARD, *Justice.*

Demurrer.

Filed August 22, 1911.

* * * * * * *

Demurrer of James O'Donnell, Defendant, to the Bill of Complaint Filed Against Him in the Above-Entitled Cause.

This defendant by protestation, not confessing nor acknowledging all or any of the matters and things in said bill of complaint contained to be true in manner and form as the same are therein and thereby set forth, does demur to the said bill and every part thereof and for cause of demurrer does show as follows:

19 1. That by the said bill there is a misjoinder of parties, the said bill on its face showing that the said Bauer & Cie have no interest in the subject matter of said bill, they having conveyed all their interests to the plaintiff, The Bauer Chemical Company.

2. That said plaintiff, the Bauer Chemical Company, has no right to fix the price of the sale of the said product, as wholesalers or distributors, from retailers to the public.

3. That the said bill fails to allege or set out any contract made by the plaintiff, The Bauer Chemical Company, with the defendant, James O'Donnell, restricting the said defendant, James O'Donnell, in the sale of said product mentioned in said bill.

4. That the said bill fails to allege that the said defendant, James O'Donnell, purchased the product mentioned in said bill from the plaintiffs or any one of them, or that he entered into any contract, express or implied, with the plaintiffs in regard to the sale of the product mentioned in the bill.

5. That the said bill fails to allege the sale of any of the product or article "Sanatogen" that was purchased by the said James O'Donnell from the plaintiff, The Bauer Chemical Company.

6. That said bill shows that the said plaintiff, The Bauer Chemical Company, refused to sell to the said James O'Donnell, and shows the sales of said Sanatogen alleged to have been made by James O'Donnell so as to constitute an infringement of said alleged
20 patent right of said plaintiffs were not sales of a product purchased from the said plaintiffs, or either of them.

7. That said attempt on the part of the plaintiffs as set out in said bill, to bind the said defendant by the "notice to the retailer" is null and void, the said plaintiffs, or either of them, having no power or authority to regulate the price at which said article is to be sold by said retailer.

8. That the said bill shows that the said James O'Donnell was the owner of the Sanatogen purchased by him which the said bill alleges he sold, and by such sale infringed the rights of the said plaintiffs, and being such owner the said plaintiffs have no right, title or interest in said article that entitles them to the relief sought.

9. That said bill shows the said James O'Donnell to be the owner of the property referred to, and attempts to set up a restraint upon him in the sale of property of which he is the lawful owner and constitutes a restraint of trade in violation of the laws of the United States.

10. That the said bill shows an attempt by restrictive notice on bottles containing the alleged patented article to prevent the lawful owner from freely disposing thereof, and thereby deprive defendant of his property without due process of law, and to rob him of the freedom of contract, all in violation of the rights guaranteed to this defendant by the Constitution of the United States and the said restrictive notice, and the end attempted to be attained thereby, are, therefore, utterly null and void.

11. That the plaintiffs, or either of them, have not in and by the said bill made or stated such a case as entitles them in a
21 court of equity to any discovery or relief from or against this defendant touching the matters contained in the said bill, or any of such matters.

Wherefore, this defendant demurs to the said bill and to all matters and things therein contained, and prays the judgment of this honorable Court whether he shall be compelled to make any further or other answer thereto, and prays to be dismissed with his reasonable costs in this behalf sustained.

BAKER, SHEEHY & HOGAN,
Attorneys for Defendant.

We certify that in our belief the foregoing demurrer of James O'Donnell, defendant to the bill of complaint of Bauer & Cie and The Bauer Chemical Company, is well founded in law and proper to be filed in the above cause.

BAKER, SHEEHY & HOGAN,
Attorneys for Defendant.

DISTRICT OF COLUMBIA, *ss:*

James O'Donnell, defendant, on oath says that he has read the foregoing demurrer to the bill of complaint of Bauer & Cie and The Bauer Chemical Company in this suit, and that the same is not interposed for the purpose of delaying the said suit or other proceedings therein.

JAMES O'DONNELL.

Subscribed and sworn to before me this second day of August, A. D. 1911.

[SEAL.] BESSIE B. SHEEHY,
Notary Public, D. C.

22 *Amendment of Bill.*

Filed November 9, 1911.

* * * * * * *

Now comes the plaintiffs and with leave of the Court first obtained amend their Bill of Complaint herein as follows:

First. In Paragraph 7 lines 4 and 5 erase the word "Resale" and substitute "sale at retail."

In Paragraph 7 line 5 after the word "product" insert "to the consumer."

Second. In the second line of the eighth paragraph of said Bill at the end of the line insert "carried on the business of a retail drug-store at 904 F Street, N. W. Washington, D. C., and while carrying on said business at said place."

In the same eighth paragraph after the word "product" in the fourth line insert: "Sanatogen bearing the aforesaid notice to the retailer".

In the paragraph numbered 8 line 9, after "restriction" insert "and in infringement of said Letters Patent".

In the same eighth paragraph after line fifteen insert: "and licensed in said notice".

In the same paragraph line eighteen after "aforesaid" insert: "and in infringement of said Letters Patent".

In the same paragraph numbered 8 of said Bill before the twenty-third line insert: "And your orators also show that prior
23 to the infringing acts herein complained of they have also supplied to jobbers within the District of Columbia for sale to retailers within said District large quantities of the aforesaid patented product, Sanatogen, in sealed packages bearing on the outside wrapper the aforesaid notice to the retailer which notice and restriction as to price of sale at retail for consumption has been accepted by said jobbers, and that all of the said packages furnished to jobbers within the District of Columbia have borne said notice, and that the Defendant has known that all of said product furnished by your orators to jobbers has uniformly borne said notice and restriction on its outside wrapper."

In the same paragraph 8 of said Bill in line twenty-seven erase "under" and substitute "to" and erase the word "invention" and substitute "Letters Patent".

In the same paragraph 8 of said Bill in line thirty after the word "suit" insert "and with the intent to sell the same in the original package bearing the aforesaid notice to the public at retail at a less price than that fixed by said notice".

In the same paragraph 8 of said Bill in line thirty-one after "aver" insert "purchase from Jobbers within said District original packages of said product furnished to said jobbers as aforesaid and did."

In the same paragraph 8 of said Bill in line thirty-seven after the word "product" insert "in the original packages bearing the aforesaid notice to the retailer at a less price than that fixed in said notice."

So that said Paragraph 8 of the Bill of Complaint as amended will read:

24 8. Your orators further show that the defendant, prior to the wrongful acts herein complained of, carried on the business of a retail drug-store at 904 F Street, N. W., Washington, D. C., and while carrying on said business at said place was furnished by your orators with original packages of the said patented product Sanatogen bearing the aforesaid notice to the retailer, and was advised orally, and by the aforesaid printed notice, and repeatedly by letter, of the restriction as to the price of re-sale, and the right to fix said price reserved to your orators, and retained said packages but nevertheless sold them in violation of said restriction and in infringement of said Letters Patent, and that the said defendant, upon being warned that his acts were an infringement of your orator's rights, professed his desire and willingness orally, and in writing, to refrain from such infringing acts, and was thereupon supplied with further quantities of said patented product, bearing the aforesaid notice, but that said defendant instead of maintaining the price of re-sale fixed and licensed in said notice by your orators, sold such further supplies in violation of the rights of your orators and of the restriction contained in the printed notice aforesaid and in infringement of said Letters Patent; and that your orators, after repeated violations of their rights by the said defendant, refused to further supply, and after the 10th day of March, 1911, did not supply the defendant with said patented product.

And your orators also show that prior to the infringing acts herein complained of they have also supplied to jobbers within the

25 District of Columbia for sale to retailers within said District large quantities of the aforesaid patented product, Sanatogen, in sealed packages bearing on the outside wrapper the aforesaid notice to the retailer which notice and restriction as to price of sale at retail for consumption has been accepted by said jobbers, and that all of the said packages furnished to jobbers within the District of Columbia have borne said notice, and that the defendant has known that all of said product furnished by your orators to jobbers has uniformly borne said notice and restriction on its outside wrapper.

Yet the defendant, well knowing the premises and the rights reserved to your orators as aforesaid, but contriving to injure your orators, and deprive them of the benefits and advantages which might and otherwise would accrue to them from said Letters Patent, after the issuing of the said Letters Patent as aforesaid, and after the 10th day of March, 1911, and before the commencement of this suit and with the intent to sell the same in the original packages bearing the aforesaid notice to the public at retail at a less price than that fixed by said notice, did, as your orators are informed and believe and accordingly aver, purchase from jobbers within said District original packages of said product furnished to said jobbers as aforesaid and did, without the license or consent, and against the will of your orators, and in violation of their rights reserved to them as aforesaid, and in infringement of the aforesaid Letters Patent, within the District of Columbia, unlawfully and wrongfully and in defiance of the rights of your orators, sell the
26 aforesaid patented product, in the original packages bearing the aforesaid notice, to the retailer at a less price than that fixed in said notice, and threatens to, and avers that he will continue to sell the same in infringement of your orators' exclusive rights, all in defiance of your orators' rights secured by the aforesaid Letters Patent and to their great and irreparable loss and injury, by which they have been and still are being deprived of great gains and profits which they might and otherwise would have obtained.

PRINDLE & WRIGHT,
Counsel for Complainants.

The filing of the foregoing amendment is not objected to.

BAKER, SHEEHY & HOGAN,
Attorneys for Defendant.

November 6, 1911.

So ordered.

——— ———.

27 *Demurrer.*

Filed December 1, 1911.

* * * * * * *

The demurrer of James O'Donnell to the Bill of Complaint of Johann Abraham von Wulfing and Others Against Him in Chancery Exhibited.

This defendant, by protestation, not confessing or acknowledging all or any of the matters and things in the said bill of complaint contained to be true in manner and form as the same are therein set forth, does demur thereto, and for causes of demurrer shows:

1. That the plaintiffs have not, in and by their said bill, stated such a case as does or ought to entitle them to any such discovery

or relief as is thereby sought and prayed against this defendant.

2. The plaintiffs have no legal right to fix or control the price at which the defendant may sell "Sanatogen" at retail to the public in the circumstances stated in their said bill.

Wherefore, and for divers other errors and imperfections, this defendant demands the judgment of this court whether he shall be compelled to make any further or other answer to the said bill, or any of the matters and things therein contained; and prays to be hence dismissed with his reasonable costs in this behalf sustained.

BAKER, SHEEHY & HOGAN,
Attorneys for Defendant.

28 *Certificate.*

We certify that the foregoing demurrer is, in our opinion, well founded in law.

BAKER, SHEEHY & HOGAN,
Attorneys for Defendant.

Jurat.

DISTRICT OF COLUMBIA, *ss:*

The defendant, James O'Donnell, being first duly sworn, deposes and says that the foregoing demurrer is not interposed by him for delay.

JAMES O'DONNELL.

Subscribed and sworn to before me this 29th day of November, 1911.

[SEAL.] BESSIE B. SHEEHY,
Notary Public, D. C.

Final Decree.

Filed March 11, 1912.

* * * * * * *

This cause came on to be heard at this term of the Court on the bill of complaint as amended and the demurrer thereto, and was fully argued by counsel for the respective parties, and considered by the court; and thereupon it is, this 11th day of March, 1912,—

Adjudged, Ordered, and Decreed that the said demurrer be and it is hereby sustained, and that the said bill be and it is
29 hereby dismissed with costs.

From the foregoing decree the plaintiffs pray and are allowed an appeal to the Court of Appeals of the District of Columbia; and the penalty of their bond for costs on such appeal is fixed at one hundred dollars ($100).

WRIGHT, *Justice.*

Notice of Motion to Vacate Decree.

Filed March 13, 1912.

* * * * * * *

To Messrs. Baker, Sheehy & Hogan, Counsel for Defendant, Evans Building, Washington, D. C.

SIRS: Please take notice that we will present the annexed motion to vacate and reverse the decree, as signed by Hon. Justice Daniel Thew Wright, to the Supreme Court of the District of Columbia, in the above entitled suit, on Friday, March 22, 1912, at 10 o'clock in the forenoon, or as soon thereafter as counsel can be heard.

EDWIN J. PRINDLE,
Of Counsel for Plaintiffs.

Dated March 12, 1912.

Service of a copy of the above Notice and Motion admitted this — day of March, 1912.

DANIEL W. BAKER,
Of Counsel for Defendant.

* * * * * * *

Comes now the Plaintiffs and show to the Court:

First. That by the decree made in this cause by his Honor, Justice Daniel Thew Wright, dated the 11th day of March, 1912, it was

Adjudged, ordered and decreed that the said demurrer be and it is hereby sustained, and that the said bill be and it is hereby dismissed with costs.

Second. That since the hearing upon which such decree was granted, the Supreme Court of the United States in the case of A. B. Dick and Company vs. Sidney Henry has decided the identical point in Plaintiffs favor, namely, that a patentee has the right to dictate the terms upon which his patented product may be sold or used by others, even in the absence of any contract relations, and that sale or use in violation of such terms is an infirngement of the patentees' monopoly.

These Plaintiffs, therefore, move the Court that the said decree may be opened and a decree in Plaintiff's favor may be entered, or that the Court may please to make such order in the premises as to the Court shall seem meet.

Dated, March 12, 1912.

EDWIN J. PRINDLE,
Of Counsel for Plaintiffs.

Memorandum on Jacket.

The facts in Henry vs. Dick are such as to give it no controlling effect on the case at bar. Motion for rehearing denied.

WRIGHT.

31 *Order Overruling Motion for Rehearing.*

Filed June 11, 1912.

* * * * * * *

Upon consideration of motion of the plaintiffs, filed herein the 22d day of March, 1912, for rehearing of argument on defendant's demurrer and for the vacating of the decree made in this cause on the 11th day of March, 1912, it is, by the Court, this 11th day of June, 1912, ordered that the said motion be and the same is hereby overruled.

WRIGHT, *Justice.*

Memorandum.

June 14, 1912.—$100. deposited by plaintiff in lieu of Appeal Bond.

Assignment of Errors.

Filed June 21, 1912.

* * * * * * *

Now comes the Plaintiffs, Bauer & Cie and The Bauer Chemical Company, by Edwin J. Prindle, Esq., Counsel, and having prayed an appeal to the Court of Appeals of the District of Columbia, from the final decree in the said Supreme Court of the District of Columbia, entered the 11th day of March, 1912, and dismissing the Bill of Complaint, with costs to the defendant, respectfully represents as grounds of appeal, and as an Assignment of Errors herein, that the Supreme Court of the District of Columbia erred in the following particulars:

32

1. In holding that Plaintiffs are not entitled to the relief prayed for in the Bill of Complaint;

2. In holding that Plaintiffs are not entitled to an injunction and an accounting by reason of the violation by defendant of the license restriction forbidding the sale of Plaintiffs' packages at less than the retail prices stated in such restrictions on the respective packages of different sizes by sale by Defendant to the consumer of packages bought by defendant directly from plaintiffs;

3. In holding that Plaintiffs are not entitled to an injunction and an accounting by reason of the violation by defendant of the License restriction forbidding the sale of plaintiffs' packages at less than the retail prices stated in such restrictions on the respective packages of different sizes by sale by Defendant to the consumer of packages bought by Defendant indirectly from plaintiffs.

Dated, New York, June 18, 1912.

EDWIN J. PRINDLE,
Counsel for Plaintiffs.

33 *Directions to Clerk for Preparation of Transcript of Record.*

Filed June 25, 1912.

* * * * * * *

The Clerk of the Court will prepare a transcript of record for Court of Appeals in above-entitled cause, consisting of the following:

1. Subpœna,	Filed June 8, 1911.
2. Bill of Complaint,	Filed June 8, 1911.
3. Motion for Injunction,	Filed June 26, 1911.
4. Order continuing hearing on motion for restraining order (Minutes 88, page 315),	Passed July 6, 1911.
5. Answer of defendant to rule,	Filed Aug. 4, 1911.
6. Order denying motion for restraining order and discharging rule (Minutes 88, p. 422),	Passed Aug. 4, 1911.
7. Demurrer (first filed),	Filed Aug. 22, 1911.
8. Amendment to Bill of Complaint,	Filed Nov. 9, 1911.
9. Demurrer, (last filed),	Filed Dec. 1, 1911.
10. Clerk's Certificate,	Filed Feb. 21, 1912.
11. Final Decree,	Filed Mar. 11, 1912.
12. Motion to Vacate and Reverse Decree,	Filed Mar. 13, 1912.
13. Justice Wright's Opinion,	Written on back of the Motion.
14. Order denying Motion to Vacate and Reverse Decree,	Dated June 11, 1912.
15. Assignment of Errors,	Dated June 18, 1912.
16. This Præcipe.	

The Clerk will also please include a memorandum showing cash deposit of One Hundred ($100.) Dollars in lieu of appeal bond.

PRINDLE & WRIGHT,
Attorneys for Complainant.

Dated June 18, 1912.

Service of the above is hereby accepted this 24th day of June, 1912.

BAKER, SHEEHY & HOGAN,
Attorneys for Defendant.

Approved:

BAKER, SHEEHY & HOGAN,
Attorneys for Defendant.

34 Supreme Court of the District of Columbia.

UNITED STATES OF AMERICA,
District of Columbia, ss:

I, John R. Young, Clerk of the Supreme Court of the District of Columbia, hereby certify the foregoing pages numbered from 1 to 33, both inclusive, to be a true and correct transcript of the record, according to directions of counsel herein filed, copy of which is made part of this transcript, in cause No. 30233 in Equity, wherein Bauer & Cie and The Bauer Chemical Company are Plaintiffs and James O'Donnell is Defendant, as the same remains upon the files and of record in said Court.

In testimony whereof, I hereunto subscribe my name and affix the seal of said Court, at the City of Washington, in said District, this 11th day of July, 1912.

[Seal of Supreme Court of the District of Columbia.]

JOHN R. YOUNG, *Clerk.*

Endorsed on cover. District of Columbia Supreme Court. No. 2444. Bauer & Cie et al., appellants, vs. James O'Donnell. Court of Appeals, District of Columbia. Filed Jul- 17, 1912. Henry W. Hodges, clerk.

COURT OF APPEALS
DISTRICT OF COLUMBIA
FILED

SEP.-23-1912

Henry W. Hodges
Clerk

COURT OF APPEALS

DISTRICT OF COLUMBIA,
OCTOBER TERM, 1912,
No. 2444.

BAUER & CIE AND THE BAUER CHEMICAL COMP

Appel

vs.

JAMES O'DONNELL.

BRIEF FOR APPELLANTS.

PRINDLE & WRIGHT,
Solicitors for Appellants,
111 Broadway, New York.

EDWIN J. PRINDLE,
Of Counsel.

B. H. TYRREL, PRINTER, 206-8 FULTON STREET, NEW YORK.

IN THE

Court of Appeals

OF THE DISTRICT OF COLUMBIA.

BAUER & CIE, and THE BAUER CHEMICAL COMPANY, Plaintiffs-Appellants, *vs.* JAMES O'DONNELL, Defendant-Appellee.	30,233. In Equity

BRIEF FOR PLAINTIFFS-APPELLANTS ON DEMURRER.

Statement of the Case.

This is an appeal from a decree below sustaining a demurrer and dismissing the bill. The court below filed no written opinion.

Plaintiffs-Appellants are the owner and sole licensee, respectively, of Letters Patent for an albuminoid product known as "Sanatogen," and the bill prays for an injunction restraining the defendant-appellee from selling the patented product and for an accounting of profits and damages. The packages of the product, since April,

1910, have been uniformly sold with the following license stamped on the package:

"NOTICE TO THE RETAILER."

"This size package of Sanatogen is licensed by us for sale and use at a price not less than one dollar ($1.00). Any sale in violation of this condition, or use when so sold, will constitute an infringement of our patent No. 601,995, under which Sanatogen is manufactured, and ALL PERSONS SO SELLING OR USING PACKAGE OR CONTENTS WILL BE LIABLE TO INJUNCTION AND DAMAGES.

"A purchase is an acceptance of this condition. All rights revert to the undersigned in the event of violation.

$1.00. THE BAUER CHEMICAL CO."

Transcript, p. 3.)

The bill (Tr., p. 14, fol. 24) charges that defendant-appellee is a druggist having a drug store in the City of Washington, and that he has violated the license;

(1). By selling to the consumer at prices below those specified in the license, packages of Sanatogen having the said license stamped thereon, and which he obtained directly from Plaintiffs-appellants (there being several sizes of the said packages made by plaintiffs-appellants and licensed for sale at respectively different prices), and

(2). By so selling to the consumer below the licensed price, packages of Sanatogen which he purchased indirectly from the plaintiffs-appellants.

The bill also charges irreparable injury from such acts.

The demurrer to the amended bill of complaint sets up two grounds as follows:

1. That the plaintiffs-appellants have not, in and by their said bill, stated such a case as does or ought to entitle them to any such discovery or relief as is thereby sought and prayed against this defendant.

2. The plaintiffs-appellants have no legal right to fix or control the price at which the defendant may sell "Sanatogen" at retail to the public, in the circumstances stated in their said bill.

No discovery is asked for except such as is incidental to the usual accounting in a patent suit.

Errors Relied Upon.

The allegations of error relied upon are that the Supreme Court of the District of Columbia erred in the following particulars:

1. In holding that Plaintiffs are not entitled to the relief prayed for in the Bill of Complaint;

2. In holding that Plaintiffs are not entitled to an injunction and an accounting by reason of the violation by defendant of the license restriction forbidding the sale of Plaintiffs' packages at less than the retail prices stated in such restrictions on the respective packages of different sizes by sale by Defendant to the consumer of packages bought by Defendant *directly* from Plaintiffs;

3. In holding that Plaintiffs are not entitled to an injunction and an accounting by reason of the violation by Defendant of the License restriction forbidding the sale of Plaintiffs' packages at less than the retail prices stated in such restrictions on the respective packages of different sizes by sale by Defendant to the consumer of

packages bought by Defendant *indirectly* from plaintiffs (Tr., p. 18).

The questions raised by the demurrer and by the assignments of error are then as follows:

(1) Can a retailer sell a patented article, having a license stamped thereon restricting the price at which the article can be sold to the consumer, at a lower price than the licensed price, without infringement of the patentee's rights, when the said retailer purchases the said article *directly* from the patentee; and

(2) Can a retailer sell a patented article, having a license stamped thereon restricting the price at which the article can be sold to the consumer, at a lower price than the licensed price, without infringement of the patentee's rights, when the retailer purchases the said article made by the patentee, but purchases from someone other than the patentee.

What Plaintiffs-Appellants' Patent Granted to Them.

As an inducement to make inventions and to disclose them to the public the patent law said, in effect,—"If you will make an invention and disclose it to the public so that we may use it when your monopoly is dead, we will grant you the exclusive right to make, use, and sell the invention for seventeen years, after which it shall forever belong to the public." This "exclusive" right to make, use, and sell the invention is the right to exclude everyone else from any making, using or selling of the invention. The inventor needed no legislation to enable him to enjoy his invention by *himself* making, using, and selling specimens

of it, for that is his natural right, but what the law could and did do for him was to give him the right to exclude everyone else from making, using or selling the invention during the brief monopoly which it secured to him. This right of exclusion which the law granted to him is so complete that (as the Supreme Court decided in the Paper Bag Case, 210 U. S., 405, 52 L. Ed. 1122, 28 Sup. Ct. Rep. 748), the inventor may not only not use the invention himself during the life of his patent, but can prevent everyone else from using it.

We start, then, with the proposition that Plaintiffs-Appellants have the right to exclude everyone from any making, using, or selling of the patented invention. Therefore, when Plaintiffs-Appellants grant any right under the patent to anyone, they simply waive their right to exclude them from all making, using, or selling of the patented invention to the extent of the grant, and all ungranted right of exclusion remains in Plaintiffs-Appellants.

Plaintiffs-Appellants' notice of the price restriction on its packages is therefore notice to all the world that the right to sell the article below the price stated on the packages ($1.00) is not granted and does not pass from the Plaintiffs. That portion of the monopoly which consists in the right to sell the patented article below the price of $1.00 is not removed from the article but remains in the Plaintiffs. In selling the article in the case at Bar the Plaintiffs only withdrew the monopoly to the extent of allowing the article to be sold at retail at all prices from $1.00 upwards, but they retained the right to sell it at all prices below $1.00.

To put the matter in another way, when Plaintiffs sold their packages, they only sold immunity from their right to exclude from any sell-

ing whatever, to the extent of granting immunity to sell the article at retail at a price of $1.00 or upwards and retained the right to exclude all others from any selling of the article at retail at a price below $1.00. Plaintiffs only *partially* released the packages from their power of exclusion.

If the packages had been once sold without any conditions, they would have passed forever outside of the monopoly and could never have been recalled, but when the packages were bought, either by a jobber or by Defendant-Appellee (O'Donnell), with a license restriction displayed on them in such a way that it could not fail to be noticed, the purchaser, whether it were the jobber or O'Donnell, only obtained a title to the packages limited as to the selling of them. They were at liberty to make any use of the packages within the limited immunity from the monopoly which was granted with the packages, but were not at liberty to trespass upon the portion of the monopoly reserved by the Plaintiffs, viz.: the right to sell the packages at a retail price below $1.00.

Turning now to the two specific questions before the Court we discuss

(1) O'Donnell's Infringement by Selling Packages Bought *Directly* from Plaintiffs and Having a License Restriction Label on Them.

The first paragraph of amended section 8 of the Bill of Complaint (Transcript, page 14, folio 24), shows that O'Donnell first bought packages of Plaintiff's patented product, bearing Plaintiffs' license restriction notice, from Plaintiffs *directly,* and that he agreed, in writing, to observe the conditions of the license.

When, therefore, O'Donnell sold packages, bought directly from Plaintiffs, at a retail price lower than $1.00, he violated his license and trespassed upon the portion of the monopoly which Plaintiffs had reserved to themselves. This action by Defendant comes squarely under a decision by the Supreme Court in Henry *v.* Dick, 32 Sup. Ct., Rep. 364 (decided Mar 11, 1912).

In Henry *v.* Dick the patentee sold copying machines, known as "mimeographs," with a label on them restricting their use to ink and other supplies bought from the patentee, precisely as in the present case Plaintiffs have sold their patented preparation with a label bearing a restriction to a retail price of not less than $1.00. At pages 370 to 377, Sup. Ct. Rep., the Supreme Court analyzes the questions of the patentee's right to thus impose conditions upon the use of his patented article, and sustains such right.

> (Page 370) "The argument for the defendants ignores the distinction between the property right in the materials composing a patented machine, and the right to use for the purpose and in the manner pointed out by the patent. The latter may be and often is the greater element of value, and the buyer may desire it only to apply to some or all of the uses included in the invention. But the two things are separable rights. If sold unreservedly the right to the entire use of the invention passes, because that is the implied intent; but this right to use is nothing more nor less than an unrestricted license presumed from an unconditional sale. A license is not an assignment of any interest in the patent. It is a mere permission granted by the patentee. It may be a license to make, sell, and use, or it may be limited to any one of these separable rights. If it be a license to use, it operates only as a right to use without being liable as an in-

fringer. If a licensee be sued, he can escape liability to the patentee for the use of his inention by showing that the use is within his license. But if his use be one prohibited by the license, the latter is of no avail as a defence. As a license passes no interest in the monopoly, it has been described as a mere waiver of the right to sue by the patentee. 2 Robinson Patents, §§ 806, 808.

"We repeat. The property right to a patented machine may pass to a purchaser with no right of use, or with only the right to use in a specified way, or at a specified place, or for a specified purpose. The unlimited right of exclusive use which is possessed by and guaranteed to the patentee will be granted if the sale be unconditional. But if the right of use be confined by specific restriction, the use not permitted is necessarily reserved to the patentee. If that reserved control of use of the machine be violated, the patent is thereby invaded. This right to sever ownership and use is deducible from the nature of a patent monopoly and is recognized in the cases. * * * * *

(Page 370) "It is plain from the power of the patentee to subdivide his exclusive right of use that when he makes and sells a patented device, that the extent of the license to use which is carried by the sale must depend upon whether any restriction was placed upon the use and brought home to the person acquiring the article.

"That here the patentee did not intend to sell the machine made by it subject to an unrestricted use is, of course, undeniable from the words upon the machine, viz.:

'LICENSE RESTRICTION.'

'This machine is sold by the A. B. Dick Company, with the license restriction that it may be used only with the stencil, paper, ink, and other supplies made by A. B. Dick Company.'

"The meaning and purpose of this restriction was that while the property in the machine was to pass to the purchaser, the right to use the invention was restricted to use with other articles required in its practical operation, supplied by the patentee. * * * * *

"(Page 371) Such a sale, while transferring the property right in the machine, carries with it only the right to use it for practicing the invention according to the terms of the license. To no other or greater extent does the patentee consent to the use of the machine. When the purchaser is sued for infringement by using the device, he may defend by pleading, not the general and unlimited license which is carried by an unconditional sale, but the limited license indicated by the metal tablet annexed to the machine. If the use is not one permitted, it is plainly an infringing use.

"If, then, we assume that the violation of restrictions upon the use of a machine made and sold by the patentee may be treated as an infringement, we come to the question of the kind of limitation which may be lawfully imposed upon a purchaser.

"To begin with, the purchaser must have notice that he buys with only a qualified right of use.* * * * *"

(Page 372). "As to whether the restrictions upon sales imposed by the agreements were 'legal and reasonable conditions,' the court (in the Bement Case) said:

"'*The provision in regard to the price at which the licensor would sell the article manufactured under the license was also an appropriate and reasonable condition* [italics ours]. It tended to keep up the price of the implements manufactured and sold, but that was only recognizing the nature of the property dealt in, and providing for its value so far as possible. This the parties were legally entitled to do. The owner of a patented article can, of

course, charge such price as he may choose, and the owner of a patent may assign it or sell the right to manufacture and sell the article patented upon the condition that the assignee shall charge a certain amount for such article.'

"If the stipulation in an agreement between patentees and dealers in patented articles, which, among other things, fixed a price below which the patented articles should not be sold, would be a reasonable and valid condition, it must follow that any other reasonable stipulation, not inherently violative of some substantive law, imposed by a patentee as part of a sale of a patented machine, would be equally valid and enforceable. It must also follow that if the stipulation be one which qualifies the right of use in a machine sold subject thereto, so that a breach would give rise to a right of action upon the contract it would be at the same time an act of infringement giving to the patentee his choice of remedies. * * * * *

(Page 374). * * * * * "This was pointed out in the Paper Bag Case, where the inventor would neither use himself nor allow others to use, and yet was held entitled to restrain infringement, because he had the exclusive right to keep all others from using during the life of the patent. This larger right embraces the lesser of permitting others to use upon such terms as the patentee chooses to prescribe. * * * * *

(Page 374). "The earliest of the reported cases in which the precise question here presented arose (the right to restrict a use) were cases arising in suits for the infringement of a patent upon an iron band connected by a buckle, intended for binding cotton bales. The band and this buckle were of iron. The buckle was so adjusted as that the band could be removed from the bale only by cutting. Upon the buckle was stamped the words: 'Licensed to use only once.' When cut from

the bale the band and buckle were sold to persons who used the buckles either upon a new band, or one repaired, and these bands were sold to planters to be used again in baling cotton. The question arose in a number of cases as to whether such second use of the buckles by one with notice was an infringing use. In American Cotton-Tie Co. v. Simmons, 3 Bann. & Ard. 320, Fed. Cas. No. 293, Judge Shepley dismissed the bill. The case, upon appeal to this court, was reversed, on the ground that that which had been done after the first use was a reconstruction, and not a repair, and was therefore an infringement. 106 U. S. 89, 27 L. ed. 79, 1 Sup. Ct. Rep. 52. The court did not pass upon the question whether a second use of the buckles would be an infringing use. Another case arising under the same patent was that of American Cotton Tie Supply Co. v. Bullard, 4 Bann. & Ard. 520, Fed. Cas. No. 294, decided by Judge Blatchford, who gave the question great consideration. 'It is manifest,' says Judge Blatchford, 'that the owners of the patents intended, by the stamps on the buckles and the imprints on the billheads, to grant a restricted license for the use of the ties and the buckles, and that the intended restriction was to a use of them once only as baling ties. The words, 'Licensed to use once only,' stamped on each buckle, was notice to everyone who handled it that there was attached to it a restriction in the shape of a license, and of a license merely to use, and of a license to use only once. This was a lawful restriction.' * * * * * *

(Page 375). "It would lengthen this opinion unreasonably to make quotations from these opinions to show either the grounds upon which they go or their applicability. Some of them concern sales subject to a restriction upon the price upon resale, and others relate to a requirement that the article sold shall be used only in connection with certain other things

to be bought from the patentee. We deem it well, however, to refer to the opinion of the circuit court of appeals of the eighth circuit, delivered by Judge (now Mr. Justice) Van Devanter in National Phonograph Co. v. Schlegel, cited above, because it draws so clearly the distinction between a conditional and an unconditional sale of a patented article. Speaking for the court, Judge Van Devanter said:

"'An unconditional or restricted sale by the patentee, or by a licensee authorized to make such sale, or an article embodying the patented invention or discovery, passes the article without the limits of the monopoly, and authorize the buyer to use or sell it without restriction; but to the extent that the sale is subject to any restriction upon the use or future sale, the article has not been released from the monopoly, but is within its limits, and, as against all who have notice of the restriction, is subject to the control of whoever retains the monopoly. This results from the fact that the monopoly is a substantial property right conferred by law as an inducement or stimulous to useful invention and discovery, and that it rests with the owner to say what part of this property he will reserve to himself and what part he will transfer to others, and upon what terms he will make the transfer.'" * * *

"In British Mutoscope & Biograph Co. v. Homer, 17 Times L. R. 213 (1901) 1 Ch. 671, 70 L. J. Ch. N. S. 279, 49 Week. Rep. 277, 84 L. T. N. S. 26, 18 Rep. Pat. Cas. 177, decided in 1901, it was held that the purchaser of a mutoscope under a rent distress warrant obtained no greater right to the use of the patented machine than that which pertained to the execution debtor, and that if the debtor had no right other than a strictly personal right to use, the purchaser obtained no right to the use. Mr. Justice Farwell, who delivered the opinion, cited and quoted with approval from the case of the Incandescent Gas-

> light Co. v. Brogden, *supra*, where it was said that a purchaser who buys with knowledge of the conditions under which his vendor is authorized to use a patented invention is bound by such conditions, and that such conditions are not contractual, but are incident to and a limitation of the grant of the licensee to use, so that if the conditions are broken there is no grant at all." * * *. (page 377.)

The Henry v. Dick case related to a restriction as to the *use* of the patented article. The three branches of the patentee's monopoly, viz.: making, using and selling, are, however, strictly analogous, and, it being lawful for the patentee to impose a restriction as to use, it necessarily follows that it is lawful for him to impose a restriction as to price.

The Supreme Ct. in Bement vs. National Harrow Co., 186 U. S., 70, 89 to 92 said:

> "'The provision in regard to the price at which the licensor would sell the article manufactured under the license was also an appropriate and reasonable condition."

This language is quoted with approval in Henry v. Dick at page 372.

In Henry vs. Dick, as above quoted, at pages 364 to 379 the Court sustains the right of a patentee to restrict the price at which his article shall be sold. Other cases are the following:

> Victor Talking Machine Co. *vs.* The Fair, 123 Fed., 424, C. C. A., 7th Circuit.
>
> New Jersey Patent Co. *vs.* Schaefer, 144 Fed. 437, and 159 Fed. 171 (C. C. E. D. of Pa.).
>
> Rubber Tire Wheel Co. *vs.* Milwaukee R. W. Co. 154 Fed. 358 C. C. A., 7th Circuit.

Goshen Rubber Works *vs.* Single Tube A. & B. Tire Co., 166 Fed. 431 C. C. A., 7th Circuit.

Thomas A. Edison *vs.* Ira M. Smith Co., 188 Fed. 925 (C. C. W. D. Mich.)

Waltham Watch Co. *vs.* Keene, 191 Fed. Rep. 855, Feb. 15, 1912, by Judge Coxe.

Automatic Pencil Sharpener Co. *v.* Goldsmith Bros., 190 Fed. Rep. 205 (Nov. 30, 1911) (Judge Lacombe).

Indiana Mfg. Co. *v.* Nichols & Shepard Co., 190 Fed. 579 (Dec. 14, 1911) (C. C. E. D. of Mich.).

Incandescent Gas Light Co. *vs.* Cantelo, 12 Rep. Patent Cases, 262.

Same *vs.* Brogden, 16 Rep. Patent Cases, 183.

Badische Analin, etc. *vs.* Isler (1906), 1 Chancery, 611.

McGruther *vs.* Pitcher (1904), 2 Chancery, 306.

National Phonograph Co. *vs.* Mench, 27 T. L. R., 239.

The B. V. D. Co. & Cyrus M. Walker *vs.* S. J. Wolf *et al.* (certified copy to be handed up at the hearing).

The Fair *vs.* Dover Mfg. Co., 166 Fed. 117 (C. C. A. 7th Circ.).

In the present case the Plaintiffs have chosen to waive the contract and sue upon the tort.

Counsel for O'Donnell will doubtless argue that as it is in Plaintiff's power to refuse to sell to O'Donnell, and as the Bill shows they have refused to sell to O'Donnell, an injunction for this violation of its rights would be useless. To that we reply that Plaintiffs want to sell to O'Donnell

and want to be free to do so without fear that he will violate the license restriction and disturb their trade with others. Plaintiffs can, and they believe will, do a profitable business with the Defendant (O'Donnell) if he be restrained from violating the license restriction. Clearly Defendant has violated Plaintiff's rights and is doing Plaintiffs a continual injury by forcing them to refuse to sell him their patented article, and Plaintiffs are entitled to an injunction. The fallacy of Defendant's reasoning would be made apparent by the following considerations: Defendant argues that all plaintiffs need is the right to refuse to sell to any druggist who cuts the price. If all the druggists in the United States should cut the price and Plaintiffs were restricted to the right of refusing to sell to them it would simply mean that Plaintiffs would go out of business. Plaintiffs-Appellants are also entitled to the accounting for profits and damages prayed for by the bill. Obviously Plaintiffs are entitled to and need an injunction against the Defendant from cutting prices on packages of "SANATOGEN" sold directly to him by Plaintiffs.

Taking up now the second question:

(2) O'Donnell Infringement by Selling Packages Bought *Indirectly* from Plaintiffs and Having a License Restriction Label on Them.

The last paragraph of Amended Section 8 of the Bill of Complaint (Transcript, page 15) charges O'Donnell with selling, at a retail price lower than $1.00, Plaintiffs' patented packages bearing the price restriction label but bought *indirectly* from Plaintiffs (from jobbers).

Counsel for Defendant will argue that, as Plaintiffs obtain from the jobber the price which they require from jobbers for the packages, the packages passed outside of the monopoly and that when Plaintiffs are seeking to restrict the price at which the Defendant can sell they are seeking to again draw the article within the monopoly.

The error in this reasoning lies in the assumption that the jobber secured an unrestricted title to packages free from all monopoly. The jobber had notice on the label of the license restriction that Plaintiffs retained that portion of their monopoly which consists in the right to exclude all others from selling the packages at retail at a price lower than $1.00. If the jobber himself had sold the packages at retail, at a price lower than $1.00, he would have been unquestionably infringing the reserved (or ungranted) portion of the monopoly and would have been liable to an injunction. It is fundamental that, unless the quality of innocence intervenes, the vendee obtains no better title than the vendor.

> "It is axiomatic in all departments of the law that unless the quality of innocence intervenes, the title of the purchaser is no better than his seller's."
>
> Victor Talking Machine Co. *vs.* The Fair, 123 Fed. Rep., 427.

The bill alleges that packages which O'Donnell sold and which he obtained from the jobber bore the license restriction label. Therefore O'Donnell had notice of the license restriction, or reserved, or ungranted, portion of the monopoly, and he also therefore had knowledge of the qualified title which his vendor had to the packages.

O'Donnell took the packages with the knowledge of the limitation upon the title and was subject to that limitation. When, therefore, O'Donnell sold the packages obtained from the jobber at a retail price lower than $1.00, he was violating the monopoly just as much as when he bought the packages directly from Plaintiffs.

The Supreme Court in Henry *v.* Dick repeatedly indicates that all that is necessary to constitute one an infringer of the patent who uses a restricted article is notice to him of the restriction. It would therefore not be necessary that there should be any contractual relations between him and the patentee.

The Court says at page 374:

> "The conclusion we reach is that there is no difference, in principle, between a sale subject to specific restrictions as to the time, place, or purpose of use, and restrictions requiring a use only with other things necessary to the use of the patented article purchased from the patentee. If the violation of the one kind is an infringement, the other is also. That a violation of any such restriction annexed to a sale *by one with notice* constitutes an infringing use has been decided by a great majority of the Circuit Courts and Circuit Courts of Appeal, and has come to be a well recognized principle in the patent law, in accordance with which vast transactions in respect to patented articles have been conducted."

And again at page 375:

> "As indicating the trend of judicial opinion that such license restrictions annexed to patented articles, when sold, constitute licenses under the patent, and that their violation *by persons having notice* constitutes an infringement of the patent, we here set out

in the margin a number of the reported cases.

"It would lengthen this opinion unreasonably to make quotations from these opinions to show either the grounds upon which they go or their applicability. Some of them concern sales subject to a restriction upon the price upon resale, and others relate to a requirement that the article sold shall be used only in connection with certain other things to be bought from the patentee."

This is not an action upon a contract, but a bill in equity to restrain a tort, consisting of a trespass in entering upon the reserved portion of the patentee's monopoly.

In the following specific cases the Defendant was restrained from reselling a patented article below a retail price limit indicated on the article by a label, although the Defendant, in each instance, bought the article from a jobber or some one other than the owner of the patent.

New Jersey Patent Co. *vs.* Schaefer, 144 Fed. 437, and 159 Fed. 171 (C. C. E. D. of Pa.).

Thomas A. Edison *vs.* Ira M. Smith Co., 188 Fed. 925 (C. C. W. D. Mich.).

Automatic Pencil Sharpener Co. *vs.* Goldsmith Bros., 190 Fed. Rep. 205 (Nov. 30, 1911) (Judge Lacombe).

Victor Talking Machine Co. *vs.* The Fair (*supra*), 123 Fed. 427 (C. C. A. 7th Circ.).

In the latter case the Court says:

" . . . . It is axiomatic in all departments of the law that, unless the quality of innocence intervenes, the title of the purchaser is no better than his seller's. The bill directly charges appellee, a dealer, with prior knowedge of the terms on which the

> jobber came into possession of the machines. Whether or not appellee covenanted to be bound by the terms is not alleged, and whether or not an implied promise arose from appellee's purchase is immaterial in this case, for the suit is not upon a promise to keep out of the reserved portion of the monopoly, but is for the trespass in entering without permission."

O'Donnell therefore infringed the patent both when he cut the retail price on the patented packages bought directly from the Plaintiffs and when he did so on the patented packages bought indirectly from Plaintiffs, as through the jobber.

We respectfully submit that the present case is not distinguishable in principle from the case of Henry *v.* Dick decided by the Supreme Court and that the decree sustaining demurrer should be overruled and Defendant-Appellee ordered to answer.

Respectfully submitted,

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Solicitors for Plaintiffs-Appellants.

EDWIN J. PRINDLE,
Of Counsel.

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OCTOBER TERM, 1912.

No. 2444.

BAUER & CIE AND THE BAUER CHEMICAL COMPANY,
Appellants,

vs.

JAMES O'DONNELL, *Appellee.*

BRIEF FOR APPELLEE.

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PRESS OF BYRON S. ADAMS, WASHINGTON, D. C.

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BRIEF FOR APPELLEE.

A single question is presented by this appeal. It is: When, if ever, does a patentee, during the statutory life of his patent, part with his right to dictate at what price a purchaser, for full value, of a specimen of the patented article, shall subsequently resell that article? Stated another way, the question is: When are patented articles emancipated from the patent monopoly under which they are manufactured?

For convenience of statement, hereinafter we refer to the appellants as plaintiffs and to the appellee as defendant.

The facts in the case at bar which give rise to this question are these, briefly but completely and fairly stated: Plaintiffs own letters patent on a product called "Sanatogen," a powder preparation sold for internal human consumption. They manufacture and sell this product. They sold a quantity of the product to jobbers, who paid to the plaintiffs the full price demanded therefor. The jobbers sold the said product to the defendant, a retail druggist, and he paid to the jobbers the full price demanded therefor. Each container of the product so sold by the plaintiffs to the jobbers and by jobbers to the defendant had pasted on it the following label:

> "Notice to the Retailer.
>
> "This size package of Sanatogen is licensed by us for sale and use at a price not less than one dollar ($1.00). Any sale in violation of this condition, or use when so sold, will constitute an infringement of our patent No. 601,995, under which Sanatogen is manufactured, and all persons so selling or using packages or contents will be liable to injunction and damages.
>
> "A purchase is an acceptance of this condition. All rights revert to the undersigned in the event of violation.
>
> $1.00 "THE BAUER CHEMICAL CO."

The defendant resold the product at a price less than that named in the label and is sued in this case—not for breach of contract—but for patent infringement.

It will be seen that, as above stated, the case involves the question of the right of a patentee to control, *by means of the patent statute*, the price at which the patented article shall be resold to the consuming public after the patentee has manufactured it and sold it for his price, and after

the defendant has purchased it from the patentee's vendee, paying that vendee his price for the article.

Ever since the decision of the Circuit Court of Appeals in *Heaton Peninsular Button Fastener Company v. Eureka Specialty Company*, 77 Fed., 288, in 1896, patentees and patent attorneys have been exhausting their ingenuity to devise means by which a patentee may sell a specimen of his patented article, and at the same time keep it. The *Button Fastener Case* related exclusively to the *use* of a patented machine. It had no relation whatever to the question of the resale price of a patented article after it had been sold by the patentee and after that patentee had obtained for the article all of the royalty or consideration which he claimed for it, or ever expected to get out of it. Later herein we shall see that in the *Button Fastener Case*, and in the recent case of *Dick v. Henry*, commonly known as the mimeograph case, in parting with the patented machine, the patentees did not obtain all the royalty or consideration which they claimed, and to which they were entitled, out of their inventions, but depended entirely for their profit on the restricted use of the patented machine. Such is not the case at bar.

AUTHORITIES.

It is unnecessary to discuss the decisions of the various circuit courts cited here and below. To do this would serve no purpose because (1) the plaintiffs rely on and insist that this case is settled by a controlling decision of the Supreme Court of the United States; (2) the defendant relies on and insists that the question involved in this case is settled by a controlling decision of the Supreme Court of the United States; and (3) the Supreme Court, in the case of *Andrews v. Hovey*, 124 U. S., 694, in positive language, proclaims itself to be the only tribunal in which a

question regarding the patent statutes can be "finally settled so as to establish the law for like cases." In that case the Court said:

> "A question arising in regard to the construction of a statute of the United States concerning patents for inventions can not be regarded as judicially settled when it has not been judicially settled by the highest judicial authority which can pass upon the question. * * * No question regarding patents in any such case, reviewable by this Court, can be regarded as finally settled, so as to establish the law for like cases, unless it has been determined by this Court."

What then has the Supreme Court said respecting the extent and the termination of the rights of a patentee over the physical article which embodies the idea of his invention?

As far back as 1852, that Court, in *Bloomer v. McQuewan,* 14 How., 539, speaking by Chief Justice Taney, said:

> "The franchise which the patent grants consists altogether in the right to exclude every one from making, using or vending the thing patented without the permission of the patentee. This is all he obtains by the patent. And when *he sells the exclusive privilege* of making or vending it, for use in a particular place, the purchaser buys a portion of the *franchise* which the patent conferred. He obtains a share in the monopoly, and that monopoly is derived from, and exercised under, the protection of the United States, and the interest he acquires necessarily terminates at the time limited for its continuance by the law which created it. The patentee can not sell it for a longer time. * * *
>
> "But the *purchaser of the implement or machine* for the purpose of using it in the ordinary pursuits of life, stands on a different ground. In using it, he exercises no rights created by the act of Congress, nor

> does he derive title to it by virtue of the franchise or exclusive privilege granted to the patentee. The inventor might lawfully sell it to him, whether he had a patent or not, if no other patentee stood in his way. And when the machine passes to the hands of the purchaser, it is no longer within the limits of the monopoly. It passes outside of it, and is no longer under the protection of the Act of Congress and if his right to the implement or machine is infringed, he must seek redress in the courts of the State, according to the laws of the State, and not in the courts of the United States, nor under the law of Congress granting the patent. The implement or machine becomes his private, individual property, not protected by the laws of the United States, but by the laws of the State in which it is situated."

We call attention to the clear distinction made in the two paragraphs of the above quotation, the first paragraph referring to the power of the patentee over his *patent rights,* and the second referring to the power of the patentee and the rights of a purchaser over the *patented article.* This distinction we shall have occasion again to lay stress on.

The next important case is *Adams v. Burke,* 17 Wall., 453, decided in 1873. The plaintiff in that case owned a patent on a coffin-lid. He assigned the whole right for a district comprised by a circle, whose radius was ten miles, having the city of Boston for its center; outside of that district, the plaintiff owned the patent, having neither sold nor assigned his rights in it. The defendant bought a quantity of the patented lids in Boston, took them outside the ten-mile circle and used them. The plaintiff sued for patent infringement. The court, in an opinion by Mr. Justice Miller, after referring to the principles of earlier cases, said:

"The true ground on which these decisions rest is, that a sale by a person who has the full right to make, sell and use such a machine carries with it the right to the use of that machine to the full extent to which it can be used in point of time.

"The right to manufacture, the right to sell and the right to use are each substantive rights, and may be granted or conferred separately by the patentee.

"But, in the essential nature of things, when the patentee, or the person having his rights, sells a machine or instrument whose sole value is in its use, he receives the consideration for its use and he parts with the right to restrict that use. The article, in the language of the court, passes without the limit of the monopoly. *Bloomer v. McQuewan*, 14 How., 549; *Mitchell v. Hawley* (*ante*, 322). That is to say, the patentee or his assignee having in the act of sale received all the royalty or consideration which he claims for the use of his invention in that particular machine or instrument, it is open to the use of the purchaser without further restriction on account of the monopoly of the patentees."

We call especial attention to the emphasis laid by the court on the doctrine that when the patentee has *"received all the royalty or consideration which he claims for the use of his invention* * * * it is open to the use of the purchaser without further restriction on account of the monopoly of the patentees." One of the points on which turned the recent decision in *Dick v. Henry*, the Supreme Court case relied on by the plaintiffs here, was that the patentee had not by the sale received *all* the royalty or consideration which he claimed for the use of his invention in the particular machine involved in that case; in *Dick v. Henry*, the patentee had received for the mimeograph only the bare cost of its manufacture; he depended for his royalty or consideration on the profit from sales of ink and paper for use with that machine. In the case at bar, there is no such

claim. In the sales by the plaintiffs, the patentee "received *all* the royalty or consideration" he claimed or ever expected or reserved any right to obtain for the articles which ultimately became the property of the defendant. The plaintiffs made a sale outright at a profitable price and parted with every claim of every character over those particular patented articles. The moment plaintiffs here sold any number of packages of Sanatogen to the jobbers from whom defendant bought—or to defendant directly—they parted with every claim in those packages; they retained no future interest in nor any right to any pecuniary return from the use or *resale* of those particular articles. In *Dick v. Henry,* however, the patentee when he parted with the possession of the mimeograph did not get the price—the consideration—he asked for it, and hence it never was freed from the patent monopoly. What was the return to the patentee? What was the "royalty or consideration which he claims for the use of his invention"? It was the initial manufacturer's cost of the mimeograph, plus a continuing return in the shape of profits made on the sale of ink and paper used with the mimeograph. Dick said to a purchaser, "You can have the *use* of my mimeograph upon payment to me of the actual cost of that machine and a royalty, that royalty to be the profit which I will make on the ink you will use in that machine. On these terms I shall give you with the mimeograph a license under the patent to use that mimeograph only with ink and paper purchased from me." Obviously the initial sale of the machine at cost was not what the patentee demanded under his patent—not in the language of the Supreme Court "*all* the royalty or consideration which he claims for the use of his invention"—and as decided repeatedly by that Court it was not until he received the price he demanded that the machine was relieved from the patent monopoly. We reiterate, such is not the case at bar. We shall deal again

with this point when we come to the not difficult task of distinguishing the case at bar from *Dick v. Henry*.

Continuing our examination of the doctrine of the United States Supreme Court, we find next in order the case of *Chaffee v. Boston Belting Company*, 22 How., 217, in which Mr. Justice Clifford, delivering the unanimous opinion of the court, said (p. 223):

> "When the patented machine rightfully passes to the hands of the purchaser from the patentee, or from any other person by him authorized to convey it, the machine is no longer within the limits of the monopoly. According to the decision in this Court in the cases before mentioned, it then passes outside of the monopoly, and is no longer under the peculiar protection granted to patented rights. By a valid sale and purchase, the patented machine becomes the private individual property of the purchaser, and is no longer protected by the laws of the United States, but by the laws of the State in which it is situated. Hence, it is obvious, that if a person legally acquires a title to that which is the subject of letters patent, he may continue to use it until it is worn out, or he may repair or improve upon it as he pleases, in the same manner as if dealing in property of any other kind."

In *Morgan Envelope Company v. Albany Paper Company*, 152 U. S., 425, decided 1894, the United States Supreme Court unanimously held that "when a patentee has once received his royalty, he can not treat the subsequent seller or user as an infringer" (syllabus). Referring to patented fixtures, the sale of which by the defendants the patentee sought to restrain, Mr. Justice Brown, speaking for the Court, said (p. 433):

> "So far as fixtures sold by defendants, which had been originally manufactured and sold by the patentee

> to other parties, are concerned, it is evident that, by such original sale by the patentee, they passed out of the limits of the monopoly, and might be used or sold by any one who had purchased them from the original vendees. **The patentee having once received his royalty upon such device, he cannot treat the subsequent seller or user as an infringer."**

One year later; in 1895, came the illuminating decision in *Keeler v. Standard Folding Bed Company,* 157 U. S., 659. In that case the patentee had assigned his *patent rights* to various assignees for different specified territories. The defendant purchased from the territorial assignee in Michigan a quantity of the patented articles for the purpose of selling them in Massachusetts, for which State the plaintiffs were the exclusive assignees of the patentee. Plaintiffs obtained an injunction against the defendant who had purchased the patented articles from the Michigan assignee, and on appeal to the Supreme Court the decree granting that injunction was reversed. In the opinion, by Mr. Justice Shiras, the Court, after quoting section 4884 of the Revised Statutes, which specifies the grant that every patent shall contain, and section 4898 R. S., conferring on patentees the right to assign, in whole or in part, the franchise of the patent, said:

> "Where the patentee has not parted, by assignment, with any of his original rights, but chooses himself to make and vend a patented article of manufacture, it is obvious that a purchaser can use the article in any part of the United States, and, unless restrained by contract with the patentee, can sell or dispose of the same. It has passed outside of the monopoly, and is no longer under the peculiar protection granted to patented rights. As was said by Mr. Justice Clifford, in *Goodyear v. Beverly Rubber Co.* (1 Cliff., 348, 354): *'Having manufactured the material and sold it*

for a satisfactory compensation, whether as material or in the form of a manufactured article, the patentee, so far as that quantity of the product of his invention is concerned, has enjoyed all the rights secured to him by his letters patent, and the manufactured article, and the material of which it is composed, go to the purchaser for a valuable consideration, discharged of all the rights of the patentee previously attached to it, or impressed upon it, by the act of Congress under which the patent was granted.'

"Suppose, however, the patentee has exercised his statutory right of assigning by conveying to another an exclusive right under the patent to a specified part of the United States, what are the rights of a purchaser of patented articles from the patentee himself within the territory reserved to him? Does he thereby obtain an absolute property in the article, so that he can use and vend it in all parts of the United States, or, if he take the article into the assigned territory, must he again pay for the privilege of using, and selling it? If, as is often the case, the patentee has divided the territory of the United States into twenty or more 'specified parts,' must a person who has bought and paid for the patented article in one part, from a vendor having an exclusive right to make and vend therein, on removing from one part of the country to another, pay to the local assignee for the privilege of using and selling his property, or else be subjected to an action for damages as a wrongdoer? And is there any solid distinction to be made, in such a case, between the right to use and the right to sell? *Can the owner of the patented article* hold and deal with it the same as in case of any other description of property belonging to him, and, on his death, does it pass, with the rest of his personal estate, to his legal representatives, and thus, as a part of the assets to be administered, become liable to be sold?

"These are questions which, although already in effect answered by this court in more cases than one, are now to be considered in the state of facts disclosed in this record. * * *"

The court reviews its earlier decision in the case of *Adams v. Burke,* and, referring to the language of Mr. Justice Miller in that case to the effect that the defendant, having purchased the patented coffins acquired the right to *use them,* freed from any claim of the patentee, the court said (p. 664):

> "It is obvious that necessarily the use made by Burke of these coffins involved a sale in every case. He did not put them to his personal use, unless we are permitted to suppose that he was himself buried in each one of the coffins. He bought the coffins for the purpose of selling them to others, and the legal significance of the decision upholding his defense is that a person who buys patented articles from a person who has a right to sell, though within a restricted territory, has a right to use and sell such articles in all and any part of the United States; *that when the royalty has once been paid to a party entitled to receive it, the patented article then becomes the absolute, unrestricted property of the purchaser, with the right to sell it as an essential incident of such ownership.*
>
> "That this was the meaning of this decision, not only appears from the language used, and from the necessary legal effect of the conclusion reached as between the parties, but from the dissenting opinion of Justice Bradley, whose reasoning went wholly upon the assumption that such was its meaning."

Having summarized all of its earlier decisions, the Supreme Court in this case of *Keeler v. Standard Folding Bed Company,* enunciated its doctrine on the question now at bar in the following explicit terms (p. 666):

> "This brief history of the cases shows that in *Wilson v. Rousseau,* 4 How., 646, and cases following it, it was held that, as between the owner of a patent on the one side, and a purchaser of an article made under the patent on the other, *the payment of a royalty once,* or, what is the same thing, the purchase of the article

from one authorized by the patentee to sell it, *emancipates such article from any further subjection to the patent throughout the entire life of the patent,* even if the latter should be by law subsequently extended beyond the term existing at the time of the sale, and that in respect of *the time* of enjoyment, by those decisions the right of the purchaser, his assigns or legal representatives, is clearly established to be entirely free from any further claim of the patentee or any assignee; that in *Adams v. Burke*, 17 Wall., 453, it was held that, as respects *the place* of enjoyment, and as between the purchaser of patented articles in one specified part of the territory and the assignee of the patent of another part, the right once legitimately acquired to hold, use, and sell will protect such purchaser from any further subjection to the monopoly; that in *Hobbie v. Jennison*, 149 U. S., 355, it was held that, as between assignees of different parts of the territory, it is competent for one to sell the patented articles to persons who intend, with the knowledge of the vendor, to take them for use into the territory of the other.

"Upon the doctrine of these cases we think it follows that one who buys patented articles of manufacture from one authorized to sell them becomes possessed of an absolute property in such articles, unrestricted in time or place. Whether a patentee may protect himself and his assignees by special contracts brought home to the purchasers is not a question before us, and upon which we express no opinion. *It is, however, obvious that such a question would arise as a question of contract and not as one under the inherent meaning and effect of the patent laws.*

"The conclusion reached does not deprive a patentee of his just rights, because no article can be unfettered from the claim of his monopoly without paying its tribute. The inconvenience and annoyance to the public that an opposite conclusion would occasion are too obvious to require illustration."

At this point we invite attention to the fact that, as stated in plaintiff's brief in the instant case: "This is not an

action upon a contract, but a bill in equity to restrain a tort, consisting of a trespass in entering upon the reserved portion of the patentee's monopoly" (p. 18). Again: "In the present case the plaintiffs have chosen to waive the contract and sue upon the tort" (p. 14).

Next in order is the case of *Bement v. National Harrow Company,* 186 U. S., 70, the most misunderstood and misconstrued case in the books, a case cited by the members of the patent bar, who are seeking to uphold the extra-statutory claims of patentees, as sustaining every contention which it did not decide, and which the Supreme Court in a later case expressly said it did not decide. Even the Supreme Court's extraordinarily explicit refutation in *Bobbs-Merrill v. Straus,* 210 U. S., 339, of the claim that it had in *Bement v. Harrow Company* held that a patentee had the right by restrictive notice to control the *resale* price of an article manufactured by him, seems to have had no effect whatever, for we find the *Bement* case cited in the brief of plaintiff's counsel in the instant case as an authority for the contention which Mr. Justice Day, in the *Bobbs-Merrill case,* said it was not an authority for. The *Bement* case involved restrictions upon the assignment of a portion of the patentee's *patent rights,* and it had no relation whatever to the question of a patentee's right to restrict the sale of the *patented article* after it had been manufactured and made an article of commerce by one sale. The distinction between the right of an owner of a patented article and the right of an owner of a patent is a distinction which the Supreme Court sought in *Bement v. Harrow Company* to make clear, and the doctrine of that case, so far as applicable here, may well be considered as disposed of by five lines in the opinion of Mr. Justice Peckham (p. 93):

> "*The owner of a patented article* can, of course, charge such price as he may choose, and *the owner of a patent* may assign it or sell the right to manufacture and sell the article patented upon the condition that the assignee shall charge a certain amount for such article."

In *Cortelyou v. Johnson,* 207 U. S., 196, a patent case not decided on the merits because of failure of proof that the defendant had knowledge of the restrictive notice, the Supreme Court again sought to make clear its distinction between patent rights and patented articles. Here is what is said:

> "While in *E. Bement and Sons v. National Harrow Co.,* 186 U. S., 70, this Court held in respect of PATENT RIGHTS [observe not "patented articles"] that, with few exceptions, any conditions which are not in their very nature illegal with regard to this kind of property [viz., patent rights] imposed by the patentee and agreed to by the licensee for the right to manufacture or use or sell the article [note the distinction between the 'right' and the 'article'] will be upheld by the court, it is unnecessary to consider how far a stipulation in a contract between the owner of a patent right [not article] and the purchaser from him of the machine manufactured under that right, that it should be used only in a certain way, will sustain an action in favor of the vendor against the purchaser in case of a breach of that stipulation."

This distinction between extent of a patentee's property in and authority over the patent (*i. e.*, patent rights) and the article manufactured thereunder (*i. e.*, specimen of the patented article) is intensified by the opinion of the Supreme Court, speaking by Mr. Justice Harlan, in *Patterson v. Kentucky,* 97 U. S., 501:

> "The right of property in the physical substance, which is the fruit of the discovery, is altogether distinct from the right in the discovery itself, just as the property in the instruments or plates by which copies of a map are multiplied is distinct from the copyright of the map itself."

And in *Bobbs-Merrill v. Straus,* 210 U. S., 339, the contention having been pressed upon the Supreme Court that it had by the *Bement* case upheld the right of a patentee to restrict and dictate the resale price of a patented article after he had sold it for a price satisfactory to him, the Court said (p. 345):

> "In *Bement v. National Harrow Co.*, 186 U. S., 70, the suit was between the owners of the letters patent as licensor and licensees, seeking to enforce a contract as to the price and terms on which the patented article might be dealt with by the licensee. The case did not involve facts such as in the case now before us, and concerned a contract of license sued upon in the State court, and, of course, does not dispose of the questions to be decided in this case."

BOBBS-MERRILL v. STRAUS, 210 U. S., 339.

This case was decided June 10, 1908. It is indistinguishable from the case at bar. Upon its doctrine we confidently rely. It involved the construction of a clause in the copyright statute identical with the clause in the patent statute conferring the right which plaintiffs here invoke.

We purpose (1) to set forth the facts in this case, (2) to examine side by side that provision of the copyright statute which was before the Supreme Court and the analogous provision of the patent statute, and (3) to set forth the decision in this case, which was a unanimous decision of the Court.

(1)

The plaintiff, the Bobbs-Merrill Company, brought suit against the defendants, Isidor Straus and Nathan Straus, partners, trading as R. H. Macy and Company, in the Circuit Court of the United States in New York, to restrain the sale of a copyrighted novel, entitled "The Castaway," at retail at less than one dollar for each copy. The suit was distinctly one for infringement, and, as in the case at bar, all question of contract restriction was abandoned. The plaintiff was the owner of the copyright upon "The Castaway," obtained the 18th day of May, 1904, in conformity to the copyright statutes of the United States. Printed immediately below the copyright notice on the page in the book following the title page is inserted the following notice:

> "The price of this book at retail is one dollar net. No dealer is licensed to sell it at a less price, and a sale at a less price will be treated as an infringement of the copyright.
>
> "The Bobbs-Merrill Company."

The defendants "purchased copies of the book for the purpose of selling the same at retail." Ninety per cent of such copies were purchased by them at wholesale at a price below the retail price, and ten per cent of the books purchased by them were purchased at retail, and the full price paid therefor. It was stipulated that—

> "Defendants, at the time of their purchase of copies of the book, knew that it was a copyrighted book and were familiar with the terms of the notice printed in each copy thereof, as above set forth, and knew that this notice was printed in every copy of the book purchased by them.

"The wholesale dealers, from whom defendants purchased copies of the book, obtained the same either directly from the complainant or from other wholesale dealers at a discount from the net retail price, and at the time of their purchase knew that the book was a copyrighted book and were familiar with the terms of the notice printed in each copy thereof, as described above, and such knowledge was in all wholesale dealers through whom the books passed from the complainants to defendants. But the wholesale dealers were under no agreement or obligation to enforce the observance of the terms of the notice by retail dealers or to restrict their sales to retail dealers who would agree to observe the terms stated in the notice.

"The defendants have sold copies of the book at retail at the uniform price of eighty-nine cents a copy, and are still selling, exposing for sale and offering copies of the book at retail at the price of eighty-nine cents per copy, without the consent of the complainant."

Here then we have facts indistinguishable from the facts in the instant case. We now proceed to an examination of the law under which "The Castaway" was copyrighted and under which "Sanatogen" was patented.

(2)

The power of Congress to grant letters patent to inventors and copyrights to authors is found in the same section of the Constitution. The framers did not have in mind the granting of any more extensive right to one than to the other. The nature of the products of the creative genius of our inventors and authors necessarily requires some difference in the character of the rights conferred. Section 8, Article I, of the Constitution authorized the Congress, among other things:

"To promote the progress of science and useful arts, by securing for limited times to authors and inventors the exclusive right to their respective writings and discoveries."

In the exercise of this constitutional power Congress has enacted the patent and copyright statutes. So far as the franchises these statutes grant are concerned, the former is found in Section 4884 and the latter in 4952 of the Revised Statutes. All that is here material in those statutes follows:

PATENTS.	COPYRIGHTS.
Sec. 4884. Every patent shall contain a grant to the patentee, his heirs or assigns, for the term of seventeen years, of the exclusive right to make, use, and vend the invention or discovery. * * *.	Sec. 4952. Any citizen * * * who shall be the author, inventor, designer, or proprietor of any book, map, chart, dramatic or musical composition * * * and the executors, administrators or assigns of any such person, shall * * * have the sole liberty of printing, reprinting, publishing, completing, copying, executing, finishing and vending the same.

Further on herein we shall see that the Supreme Court of the United States has decided that there is a "well grounded distinction between the grant of the right to make and *vend* the patented machine and the grant of the right to *use* it" (*Dick v. Henry, infra*). In this case we are alone concerned with the grant of the right to *vend*. A comparison of that grant in these two legislative enactments will enable the court to conclude whether it is humanly possible to distinguish between them:

PATENTS	COPYRIGHTS
Sec. 4884. The patent statute confers on the patentee "the exclusive right to * * vend."	Sec. 4952. The copyright statute confers on the author "the sole liberty of * * vending."

We contend that these are "similar or equivalent powers, which must receive the same construction." We contend that the human intellect does not exist that is capable of distinguishing between "the exclusive right to vend" and "the sole liberty of vending." That one of these means precisely what the other means is too plain for argument.

(3)

With the foregoing facts and the copyright statute, as above quoted, before it, the Supreme Court decided that an author or publisher who has received his price for the book or other publication, can not invoke the copyright laws to protect a placard or notice attempting to restrict the power of alienation by a purchaser, or to prevent a resale at less than the price fixed in such placard or notice. *Bobbs-Merrill v. Straus,* 210 U. S., 339.

Thus far we have seen that in the *Bobbs-Merrill* case the book was copyrighted; that defendants knew this; that each book when it left the publisher contained a notice which attempted to restrict the retail sale price of the book to not less than $1.00; that defendants knew this, as did also the jobbers or wholesalers from whom defendants bought the copyrighted book. And we have seen that, despite the fact of the copyright and despite this knowledge, defendants sold the books for 89 cents each. The suit was for infringement. We shall now see how the case was disposed of by the Supreme Court in an opinion by Mr. Justice Day, announcing the unanimous decision of that Court (p. 343, *et seq.*):

"The present case involves rights under the copyright act. The facts disclose a sale of a book at wholesale by the owners of the copyright, at a satisfactory price, and this without agreement between the parties to such sale obligating the purchaser to control future sales, and where the alleged right springs from the protection of the copyright law alone. It is contended that this power to control further sales is given by statute to the owner of such a copyright in conferring the sole right to 'vend' a copyrighted book.

"A case such as the present one, concerning inventions protected by letters patent of the United States, has not been decided in this court, so far as we are able to discover. * * *

"In *Bement v. National Harrow Co.,* 186 U. S., 70, the suit was between the owners of the letters patent as licensor and licensees, seeking to enforce a contract as to the price and terms on which the patented article might be dealt with by the licensee. The case did not involve facts such as in the case now before us, and concerned a contract of license sued upon in the State court, and, of course, does not dispose of the questions to be decided in this case. * * *

"We therefore approach the consideration of this question as a new one in this court, and one that involves the extent of the protection which is given by the copyright statutes of the United States to the owner of a copyright under the facts disclosed in this record. Recent cases in this court have affirmed the proposition that copyright property under the Federal laws is wholly statutory, and depends upon the right created under the acts of Congress passed in pursuance of the authority conferred under Article I, § 8, of the Federal Constitution: 'To promote the progress of science and useful arts, by securing for limited times to authors and inventors the exclusive right to their respective writings and discoveries.' *American Tobacco Co. v. Werckmeister,* 207 U. S., 284; *White-Smith Music Co. v. Apollo Co.,* 209 U. S., 1; following the previous cases of *Wheaton v. Peters,* 8 Pet.,

590; *Bank v. Manchester,* 128 U. S., 244-253; *Thompson v. Hubbard,* 131 U. S., 123-151.

"The learned counsel for the appellant in this case in the argument at bar disclaims relief because of any contract, and relies solely upon the copyright statutes, and rights therein conferred. The copyright statutes ought to be reasonably construed with a view to effecting the purposes intended by Congress. They ought not to be unduly extended by judicial construction to include privileges not intended to be conferred, nor so narrowly construed as to deprive those entitled to their benefit of the rights Congress intended to grant. * * *

"It is the contention of the appellant that the Circuit Court erred in failing to give effect to the provision of § 4952, protecting the owners of the copyright in the sole right of vending the copyright book or other article, and the argument is that the statute vested the whole field of the right of exclusive sale in the copyright owner; that he can part with it to another to the extent that he sees fit, and may withhold to himself, by proper reservations, so much of the right as he pleases. [Exactly the contention now made here.]

"What does the statute mean in granting 'the sole right of vending the same'? Was it intended to create a right which would permit the holder of the copyright to fasten, by notice in a book or upon one of the articles mentioned within the statute, a restriction upon the subsequent alienation of the subject-matter of copyright after the owner had parted with the title to one who had acquired full dominion over it and had given a satisfactory price for it? It is not denied that one who has sold a copyrighted article, without restriction, has parted with all right to control the sale of it. The purchaser of a book, once sold by authority of the owner of the copyright, may sell it again, although he could not publish a new edition of it.

"In this case the stipulated facts show that the books sold by the appellant were sold at wholesale, and

purchased by those who made no agreement as to the control of future sales of the book, and took upon themselves no obligation to enforce the notice printed in the book, undertaking to restrict retail sales to a price of one dollar per copy.

"The precise question, therefore, in this case is, does the sole right to vend (named in § 4952) secure to the owner of the copyright the right, after a sale of the book to a purchaser, to restrict future sales of the book at retail, to the right to sell it at a certain price per copy, because of a notice in the book that a sale at a different price will be treated as an infringement, which notice has been brought home to one undertaking to sell for less than the named sum? We do not think the statute can be given such a construction, and it is to be remembered that this is purely a question of statutory construction. There is no claim in this case of contract limitation, nor license agreement controlling the subsequent sales of the book.

"In our view the copyright statutes, while protecting the owner of the copyright in his right to multiply and sell his production, do not create the right to impose, by notice, such as is disclosed in this case, a limitation at which the book shall be sold at retail by future purchasers, with whom there is no privity of contract. This conclusion is reached in view of the language of the statute, read in the light of its main purpose to secure the right of multiplying copies of the work, a right which is the special creation of the statute. True, the statute also secures, to make this right of multiplication effectual, the sole right to vend copies of the book, the production of the author's thought and conception. The owner of the copyright in this case did sell copies of the book in quantities and at a price satisfactory to it. It has exercised the right to vend. What the complainant contends for embraces not only the right to sell the copies, but to qualify the title of a future purchaser by the reservation of the right to have the remedies of the statute against an infringer because of the printed notice of its purpose so to do unless the purchaser sells at a

> price fixed in the notice. To add to the right of exclusive sale the authority to control all future retail sales, by a notice that such sales must be made at a fixed sum, would give a right not included in the terms of the statute, and, in our view, extend its operation, by construction, beyond its meaning, when interpreted with a view to ascertaining the legislative intent in its enactment."

Scribner's Sons v. Straus, 210 U. S., 352, involved facts similar to those involved in *Bobbs-Merrill v. Straus,* and followed the decision of that case.

The Supreme Court has not yet directly decided the question now presented to this Court under the patent law and in a case where the attempt was to restrict by notice pasted on the patented article the resale price of that article after it had once been sold and after the patentee had received for it all the compensation he claimed. The Supreme Court has, as we have seen, in the two last above referred to cases, decided this precise question when it arose with respect to books protected under the copyright laws. "The copyright laws cover manufacture or publication and sale, while the patent laws cover not only manufacture and sale but use also. It may be that a different construction should be given to these laws, where the use of a patented article is involved, and such use has been so granted that the patentee has reserved to himself some pecuniary interest by royalty or otherwise, arising from the use of the article, and that in such a case the patentee may be said not to have received his full price. That question is, however, not presented by this record. Where, as in the case at bar, the patentee has received the full price demanded by him for the article, where he has in no way restricted its use, and where he has not reserved to himself any direct pecuniary interest in such article, the general rule applies and such article is freed from the patent monopoly. We contend

that the 'exclusive right to * * * vend' conferred by the patent laws (R. S., Sec. 4884) and the 'sole liberty of * * * vending' conferred by the copyright laws (R. S., Sec. 4952) are similar or equivalent powers, which must receive the same construction; and that the question presented by this record has already been settled in our favor by the Supreme Court in the copyright decisions. We also contend that in *Keeler v. Standard Folding Bed Company*, 157 U. S., 659 (*supra*), the question here presented was practically settled, and that nothing in any of the subsequent decisions of the Supreme Court has in any manner modified or restricted the full force and effect thereof." (Quotation from Brief of Walter H. Chamberlin, Esq., in Case No. 169, October Term, 1912, United States Supreme Court, now pending in that Court.)

This case was fully heard on the merits before two learned justices of the court below, the first being a full hearing on plaintiffs' motion for a preliminary injunction, the second on defendant's demurrer. Both of the presiding justices, Mr. Justice Barnard on the first hearing, and Mr. Justice Wright on the second, announced from the bench their inability to distinguish the doctrine of *Bobbs-Merrill v. Straus* from that which should govern in this case.

This brings us to:

DICK v. HENRY, 224 U. S., 1.

Bobbs-Merrill v. Straus would leave nothing to be said in the instant case, were it not that plaintiffs insist that *Dick v. Henry* sustains their contention. We therefore assume the task of distinguishing *Dick v. Henry*.

In overruling plaintiff's motion for rehearing, the court below (Mr. Justice Wright) made the following notation (R., p. 17):

"The facts in *Henry v. Dick* are such as to give it no controlling effect in the case at bar. Motion for rehearing denied."

The facts in the case at bar, except those relating to the obtaining of the patent, are all stated in amended paragraph 8 of the bill, pages 14-15 of the record. They are as follows:

(a) Plaintiffs have obtained letters patent on a product known as "Sanatogen";

(b) Each package of the product bears the price restriction notice hereinbefore quoted;

(c) The defendant is a retail druggist in Washington;

(d) Prior to March, 1911, plaintiffs sold directly to defendant some unstated quantity of the product, which defendant resold at retail at prices less than fixed in the restrictive notice;

(e) In March, 1911, plaintiffs refused to further supply defendant, and since March 10, 1911, plaintiffs have not supplied the defendant with said product;

(f) Plaintiffs sold said product to jobbers in the District;

(g) Defendant, after March 10, 1911, purchased from the jobbers, to whom plaintiffs had sold same, quantities of the product;

(h) There is no pretense that any attempt was made by plaintiffs to restrict the prices at which the jobbers could sell the product to the defendant;

(i) Having so purchased the product, defendant sold the same at retail at prices below those fixed in the restrictive price notice;

(j) Defendant had knowledge of the terms of said notice or label;

(k) Plaintiffs seek an injunction to restrain defendant's "infringement";

(l) Plaintiffs expressly waive any right to assert any contract obligations to them on defendant's part;

(m) Plaintiffs do not claim the right to receive any further price, royalty, or profit, from the jobbers to whom they sold, or from the defendant, or any other source;

(n) In the sales to the defendant prior to March 10, 1911, and to the jobbers from whom defendant purchased after that date, plaintiffs obtained their entire price, all they claimed or ever expected to get for the articles so sold.

The facts in *Dick v. Henry* were:

(a) Plaintiff owned letters patent on a rotary mimeograph, a device for duplicating typewritten matter;

(b) Plaintiff supplied a Miss Skou with one mimeograph;

(c) Each mimeograph contained a notice restricting the purchaser's right to use the machine with ink and paper made by the patentee;

(d) Plaintiff "sold its machines *at cost, or less,* and depended upon the profit realized from the sale" of ink and paper used with the machine;

(e) Defendant supplied Miss Skou with ink of his own manufacture with the knowledge, and intending, that it would be used with plaintiff's patented machine in violation of the restriction upon its use;

(f) Both Miss Skou and defendant (Henry) had knowledge of the terms of the restrictive notice;

(g) Plaintiff (Dick) sued defendant as a contributory infringer and sought to enjoin his supplying Miss Skou, and others similarly situated, with ink intended for use with the patented mimeograph.

1. The restriction in the *Dick* case related to the *use* of the patented article:

> "Mr. Justice Clifford" in *Mitchell v. Hawley,* 16 Wall., 544, directed "attention to what he termed 'the well-grounded distinction between the grant of the right to make and vend the patented machine and the

> grant of the right to use it,' which, he says, 'was first satisfactorily pointed out by the late Chief Justice Taney, with his accustomed clearness and precision.' " *Dick v. Henry,* 224 U. S., 1, text, p. 20.

Counsel for plaintiffs in the instant case take direct issue with this doctrine of the Supreme Court. Let us parallel the Supreme Court's ruling and counsel's contention here:

Dick v. Henry, per Mr. Justice Lurton:	*Bauer v. O'Donnell,* per Mr. Prindle, counsel for Bauer:
"There is a well-grounded distinction between the grant of the right to make and vend the patented article, and the grant of the right to use it." (224 U. S., 20.)	"The three branches of the patentee's monoply, viz: making, using and selling, are, however, strictly analogous." (Brief, p. 13.)

2. In *Dick v. Henry,* the patentee had received for the patented article only the actual cost thereof to him, or less.

> "It was stated at the bar, and appears fully in the opinion of Judge Ray (149 Fed. Rep., 424), who decided the case in the Circuit Court, that the patentee sold its machines at cost, or less, and depended upon the profit realized from the sale of other non-patented articles adapted to be used with the machine, and that it had put out many thousands of such machines under the same license restrictions" (Per Lurton, J., 224 U. S., 26).

In the case now before the court, the patented article was not sold at cost; the patentee does not depend upon the profit to be realized from the sale of other articles manufac-

tured by him and used with the patented product; the plaintiffs have received all the price they asked, claimed, ever expected to get, or are entitled to, out of the sale and use of the patented product. And the Supreme Court has said:

> "The patentee or his assignee having in the act of sale *received all the royalty or consideration which he claims,* for the use of his invention in that particular machine or instrument, it is open to the use of the purchaser without further restriction on account of the monopoly of the patentee." *Adams v. Burke,* 17 Wall., 453.

Again:

> *"When the patentee has once received his royalty,* he cannot treat a subsequent seller or user as an infringer." *Morgan Envelope Company v. Albany Paper Company,* 152 U. S., 425.

Again:

> "Having manufactured the material and sold it *for a satisfactory compensation* * * * the patentee, so far as that quantity of the product of his invention is concerned, has enjoyed all the rights secured to him by his letters patent." *Keeler v. Standard Folding Bed Company,* 157 U. S., 659.

Again:

> "When the royalty has once been paid to a party entitled to receive it, the patented article then becomes the absolute, unrestricted property of the purchaser, with the right to sell it as an essential incident of such ownership." (*Ibid.*, p. 664.)

Again:

> "As between the owner of a patent on the one side, and the purchaser of an article made under the patent

> on the other, the payment of a royalty once * * * emancipates such article from any further subjection to the patent throughout the entire life of the patent." (*Ibid.*, p. 666.)

That Court has never overruled this doctrine.

In *Dick v. Henry,* the patentee had not "received all the royalty or consideration which he claimed," but looked to the use of the patented machine with ink and paper sold by him for his royalty and consideration; he had not sold the patented machine for "a satisfactory compensation"; the royalty to which he was entitled had not "once been paid." In the case here, the patentee Bauer and his assigns have "received all the royalty or consideration which they claimed"; the patentee here "has once received his royalty"; the patentee here has "manufactured the material and sold it for a satisfactory compensation"; in this case "the royalty has once been paid to the party entitled to receive it."

Overlooking the distinction between the grant of the right to use, and the ability of the patentee to part with a portion of that right and at the same time reserve the undisposed of portion of it, and the grant of the right to vend and the inability of a patentee to make and sell absolutely and at the same time reserve to himself any right to resell any portion of the article once sold, the learned counsel for the plaintiffs Bauer argue(brief, p. 5) that—

> "In selling *the article* in the case at bar the plaintiffs only withdrew the monopoly to the extent of allowing *the article* to be sold at retail at all prices from $1.00 upwards, but they retained the right to sell *it* at all prices below $1.00."

Again (brief, p. 6) it is said, referring to the defendant O'Donnell:

> "They (*sic*) were at liberty to make any use of the packages within the limited immunity from the monopoly which was granted with the patent, but were not at liberty to trespass upon the portion of the monoply reserved by the plaintiffs, viz.: the right to sell *the packages* at a retail price below $1.00."

The argument is untenable. It was utterly impossible for plaintiffs to sell a package of the patented article to O'Donnell and reserve to themselves the right to sell that package to any one else at any price. The argument is that a patentee, after having manufactured his patented device, after having sold that device at whatever price he chose, can, under his statutory patent right, retain in himself the right to sell that particular article--that concrete embodiment of the patented invention—at some other or different price than that named in the label on the article. Or, to phrase it somewhat differently, the argument is that the patentee may part with the title to the concrete embodiment of the patented invention, receiving therefor the full price demanded for it, retaining no right to make any further profit out of it by virtue of the manner in which it is used or sold, but that, under his patent, by means of the label affixed to the article, he licenses the purchaser of that article to sell that particular article at not less than the given price, retaining in himself the right to sell, not other embodiments of the patented invention at a different price, *but to sell that particular embodiment of the invention* at a different price. This argument can not be sound and it is only resorted to in an attempt to apply the inapplicable doctrine of *Dick v. Henry* to the wholly different situation presented by this case.

Returning again to page 5 of plaintiffs' brief, we emphasize the fact that counsel claims that in selling "the article" to O'Donnell, plaintiffs withdrew it from the monopoly of the patent only to the extent of allowing "the article" to

the patent only to the extent of allowing "the article" to be sold at retail at all prices from $1.00 upwards, "but they retain the right to sell it at all prices below $1.00." Now, to what does the "*it*" in the last clause refer? Does counsel mean to contend that after selling, say, one thousand bottles of Sanatogen, to O'Donnell, plaintiffs retain the right to sell that identical thousand bottles to some one else at another price? That is an unthinkable paradox. Let us suppose those bottles to be identified by serial nnmbers running, say, from 1 to 1,000. Plaintiffs made and sold that quantity to O'Donnell. It is monstrous to say that Bauer & Co. retained the right to sell those identical bottles to some one else at, for instance, 99 cents. One can not resell that which one has already sold. Yet, the whole argument of the plaintiffs is made to hinge upon this supposed reserved right in Bauer & Co.

The indisputable fact in this case is that plaintiffs had reserved to themselves no interest whatever in the bottles of Sanatogen purchased by O'Donnell. They derived no profit from sales by O'Donnell, no matter how high the price received by him for the articles he sold. They sustained no loss on the sale of these articles owned by O'Donnell, even though the latter sold the product to the public at a price below the actual cost of manufacture. In *Dick v. Henry,* the patentee did reserve an interest in the particular machine sold to Miss Skou. Out of its use in the manner and with the materials specified in the restrictive notice, the patentee obtained the only profit to which he was entitled by virtue of his patent. He had an interest in the use of that machine. Bauer had no interest in the "Sanatogen" sold to O'Donnell. Bauer had no interest in the price, or any part of it, received by O'Donnell. And Bauer had no interest in the manner in which the stuff was used by O'Donnell's vendees. Indeed, the value of "Sanatogen," if it has any, is in its consumption. It perishes with its use.

We repeat, in *Dick v. Henry* the defendant deprived the plaintiff of the profits derivable from the supply of ink to the user of the mimeograph. There the plaintiff was shown to have charged only a nominal price for the mimeograph and under the arrangement was to realize the full royalty on the use of the patented mimeograph by the receipt of profits from the sale of ink. When the user of the patented machine purchased ink from A. B. Dick Co. in paying for the ink he at the same time paid a royalty on the use of the patented machine. Dick sold the machine at actual factory output cost, and, therefore, if the purchaser obtained ink elsewhere the Dick Co. would not realize any profit whatever in the nature of royalty for its patent. That is not the circumstance here. The profits or royalty of Bauer & Co. were absolutely fixed and paid when the original sale was made. If O'Donnell had retailed the stuff at $5.00 per bottle Bauer would not have profited in any manner. Had O'Donnell sold the stuff at 30 cents per bottle no loss whatever would have been suffered by Bauer & Co.

From any and all possible viewpoints the profits or royalties of Bauer & Co. are wholly independent of the retail price at which O'Donnell sells.

To sum up on this phase of the subject: *Dick v. Henry* related to controlling the *use* of a patented article of manufacture after it had been sold to the patentee, with an express stipulation restricting the manner of using. The patent confers on the patentee the exclusive right to make, use and vend, and in the *Dick* case the right to use was so granted that the patentee had reserved to himself a pecuniary interest, arising from the use of the article, and he had not received from the article the full price or royalty to which he was entitled in virtue of his patent.

3. In *Dick v. Henry*, the majority opinion of the Supreme Court expressly approves the doctrine of the *Bobbs-*

Merrill case, and in so doing Mr. Justice Lurton again lays stress on the distinction between the right to vend and the right to use, saying:

> "While there are resemblances of the right of the author to 'vend' his copyright production, and of the patentee to 'vend' the patented thing" yet by the patent statute the inventor is granted "the exclusive right to make, *use* and vend the invention of discovery." The word "use" is italicized by the court. Mr. Justice Lurton further says that "there is no collision whatever between" the decisions in the *Bobbs-Merrill* case and the *Dick* case; he points out that the former had to do with the attempt to control the price where vending the copyright book, while the latter related to the *use* of a patented article, and says that each of these cases results "upon a construction of the applicable statute, and the special facts of the case" (224 U. S., 47).

4. The futility of attempting to apply the doctrine of *Dick v. Henry* to the case at bar is demonstrated by the following argument found on page 5 of plaintiffs' brief:

> "Plaintiffs'-Appellants' notice of the price restriction on its packages is therefore notice to all the world that the right to sell the article below the price stated on the packages ($1.00) is not granted and does not pass from the plaintiffs. *That portion of the monopoly which consists in the right to sell the patented article below the price of $1.00 is not removed from the article, but remains in the plaintiffs.*"

Here we have counsel asserting that the patent law conferred upon the plaintiffs a monopoly, which consists in the right to sell the patented article below the price of $1.00. Counsel cities no authority for this contention, and there is none. The right to sell Sanatogen at $1.00, or at any other price, was not derived under the patent law. Let us

test the soundness of the contention: Suppose the inventor had applied for a patent on the mixtures "to be sold at retail at not less than $1.00," no one imagines that the Patent Office could or would have included any such matter in the patent. The Government has no power or authority, in the existing state of the law, to confer on a patentee the right to fix the price at which others shall sell specimens which they have bought from the patentee, paid for and own.

The plaintiffs had, in virtue of the patent statute, an exclusive right to vend. They exercised that right. In the exercise of the right, they enjoyed all that the patent statute conferred on them. After the original sale of the article, with no interest in its future career retained by the patentee, it became an article of commerce subject to no restraint save that which the laws of the land imposed upon any chattel. If the defendant invaded any right of the plaintiffs, it was a contractual right. But plaintiffs are careful to waive the question of contract, realizing that their attempt to keep up the retail sale price of the patented article must be enforced under patent authority or must fall as unenforcible, plaintiffs' counsel constantly bearing in mind that under the statutes in many States, under the Federal statutes, and under the common law, this price restriction under any sort of a contract is clearly illegal. Hence they state their hope upon the monopoly of the patent.

CONCLUSION.

In the light of the decision of the Supreme Court of the United States in *Bobbs-Merrill v. Straus,* and of that Court's reaffirmance of that case in *Dick v. Henry;* of the distinction which the court has drawn between a sale by the patentee of a right to use the patented article in a specified way, and the grant in the patent of the exclusive right

to vend; of the repeated decisions by that court that a patentee exercises and parts with all of the rights conferred on him by the patent statutes when he has *once* received all of the royalty or consideration which he claims out of the patented article which he sells; and of the facts that the patentee in *Dick v. Henry had not only not received all*, but had not received any royalty or profit by the sale of the patented mimeograph, while in the *Bobbs-Merrill* case, and in the case at bar, the patentees, in exercising their right to sell, parted with every interest they had in the articles sold and received every cent they claimed out of those articles, we submit the decree of the court below should be affirmed.

We desire here to acknowledge the valuable assistance received by us in the preparation of this brief from Mr. Frank Y. Gladney, author of "Restraints of Trade in Patented Articles," the most analytical and exhaustive book on this subject extant; and from the most excellent and interesting article by Mr. Walter H. Chamberlin, formerly Assistant Commissioner of Patents, on the "Emanicipation of Patented Article," published in the Illinois Law Review of January, 1912. We can not better close this brief than by quoting from the brief of Mr. Chamberlin, filed in the Supreme Court in a case similar to this, now pending in that court, and to be heard there during the present term:

> "The numerous cases cited show that a large and constantly increasing practice has grown up among concerns manufacturing devices under patents, of placing on their patented articles notice similar to that in the case at bar, and upon violation of the terms of the notice to sue the guilty party for patent infringement. The result as can be readily appreciated is that when a dealer like this defendant desires to fix his own retail selling price on goods which he has bought and

which he owns (containing a placard such as in the case at bar), he must contest the validity of the patent, an experimental, long, tedious and expensive proceeding. Failing in this, he must meekly bow to the Czar patentee. Such a condition is intolerable and we feel that this Court will recognize that this case while nominally between private parties brings to this court a question fraught with the utmost importance to patentees, retailers and the *purchasing public*, for it must be borne in mind that if this price restriction can not be enforced under patent authority itself, under the statutes of many States, and in our opinion at the common law, it is illegal, and the public are being forced to pay exorbitant prices for articles, the retail selling price of which would be materially reduced under natural and healthful competition, if unrestricted by false doctrines concerning patent monopolies."

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IN THE

COURT OF APPEALS,

OF THE DISTRICT OF COLUMBIA.

BAUER & CIE and The BAUER CHEMICAL COMPANY,

Plaintiffs-Appellants,

vs.

JAMES O'DONNELL,

Defendant-Appellee.

In Equi
No. 2,4

REPLY MEMORANDUM FOR APPELL ANTS.

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OF THE DISTRICT OF COLUMBIA.

BAUER AND CIE and THE BAUER CHEMICAL COMPANY, Plaintiffs-Appellants, *vs.* JAMES O'DONNELL, Defendant-Appellee.	In Equity. No. 2,444.

Reply Memorandum for Appellants.

The brief for Defendant states there is only a single question presented by this appeal, viz.:

> "When are patented articles emancipated from the patent monopoly under which they are manufactured?"

After reciting the facts in the case at bar, he calls attention to the distinction in the decisions of the Supreme Court (as Counsel states it) between the "power of the patentee over his patent rights" and the "rights of the purchaser over the patented article." He then seeks to show that, by plaintiff's sale to the jobber or to defend-

ant, of the package in the case at bar, the power of the patentee over the package ceased, and the rights of the purchaser became absolute and included the right to sell at a retail price below that forbidden by the license notice on the package.

We shall discuss each of his citations in turn.

Bloomer v. McQuewan, 14 How., 539.

Counsel for Defendant quotes from Chief Justice Taney in Bloomer *v.* McQuewan to show the distinction, as Counsel states it, between the "power of the patentee over his patent rights" and "the rights of the purchaser over the patented article."

This case is discussed in Henry *v.* Dick (32 Sup. Court Rep., page 368, foot of first column), and there held to relate to an *unrestricted or unconditional sale.* In Bloomer *v.* McQuewan, Chief Justice Taney was not considering the difference between a restricted and an unrestricted sale of a patented machine, but he was seeking to interpret Section 18 of the Act of 1836, which related to the renewal or extension of a patent beyond its original term, and which provided that the "benefit of such renewal shall extend to the assignees and grantees of the right to use the thing patented, to the extent of their respective interests therein." He was determining whether in the light of this provision one who had purchased a machine during the original term of the patent by a sale (without any conditions) had a right to use that machine free from the monopoly of an extension of the patent, and he decided that such purchaser had the said right. The language which Counsel for Defendant quotes does not, therefore, apply to the case at bar, as the sale here was a conditional sale.

The distinction which Counsel for Defendant seeks to make as "the distinction between the property rights in the materials composing a patented machine and the right to use for the purpose and in the manner pointed out by the patent" is stated by the Supreme Court in Henry *v.* Dick, 32 Supreme Court Rep., first full paragraph page 370, *et seq.*

Applying the distinction specifically to the case at bar:—when Defendant purchased the package of Sanatogen (plaintiff's patented food tonic) from Plaintiff or from the jobbers, he acquired the title to the physical materials therein, and he could, for instance, have used the contents of the package (which is in the form of dry, powdered material) as ingredients for making explosives, or as a powder for polishing silver, or he could have personally eaten it as a food medicine, as was intended by its manufacturers, or he could have sold it at any retail price from $1.00 up. These rights went to him with the title to the physical materials of which the ingredients of the package were composed, but no portion of the patent monopoly went with the package.

In buying the package he bought immunity from the monopoly, except in so far as the Plaintiff retained that monopoly over the article with notice to the Defendant when he purchased the package. The notice on the package, that a sale of the package at retail at a price lower than One Dollar would be an infringement of the patent, was notice that to such extent the package was not released from the monopoly. In other words, a purchase of the package under these conditions was not a purchase of complete immunity from the monopoly, the right to sell the package at a price lower than One Dollar being still reserved by and being in the Plaintiff.

Adams v. *Burke, 17 Wall., 453.*

Counsel for Defendant next refers to Adams *v.* Burke, 17 Wall., 453. This case is also stated in Henry *v.* Dick to relate to an *unconditional* sale (page 368, first column). In this case coffin-lids were bought of grantees of all the rights in a certain specified territory, and were used outside of that territory. The plea recited that they were "sold within said circle by said Lockhart and Seelye *without condition or restriction.*" (Italics ours.)

The Court held, in effect, that having been sold once *without restriction*, they were free from the monopoly and could be used anywhere in the United States without reckoning with the local grantee. The Court in using the language quoted in Defendant's brief did not, therefore, have in mind the distinction in the case at bar between a restricted and an unrestricted sale.

Counsel for Defendant lays special emphasis "on the doctrine that when the patentee has 'received all the royalty or consideration which he claims for the use of his invention, . . . it is open to the use of the purchaser without further restriction on account of the monopoly of the patentees.'" Of course, a case in which a patentee has received "all the royalty or consideration" which he claims is a case of an unrestricted sale. In the present case, however, the Plaintiffs have not received all the royalty or consideration which they claim. Part of the consideration which they claim is the advantage of not having the package sold at a retail price lower than One Dollar. This advantage is fully equivalent to a money consideration to be added to the purchase price, as will be seen from the following: When Defendant cuts the retail price of Plaintiffs' package below One Dollar, he compels other druggists

in the same city to cut the price or to lose trade in the article. When the price is cut, it lessens the profit to all of the druggists, including the Defendant, and gives rise to a temptation to the druggists to substitute some other article on which the profit would be larger at the cut price, and thus the effect of cutting the price is to lessen the volume of the Plaintiffs' sales. To meet this situation Plaintiffs would have to reduce the price of their article to the druggist, and a temptation would arise to cheapen the article, and thus to produce an inferior article in order to meet this competition—a result which would work harm to the public.

The damage to Plaintiffs will be made more strikingly apparent if it be supposed that Defendant is the only druggist in the United States having, say, acquired control of all the drug stores. If Plaintiffs could not then enjoin him from cutting the price on Sanatogen, it would either have to lose a volume of business because Defendant would substitute articles which were more profitable at the cut price, or it would have to lower the price of its article to Defendant, resulting, possibly, in lowering the quality of the article to the detriment of the public. Plaintiffs would have to go out of business if their only remedy were the power to refuse to sell to Defendant.

Defendant's brief is permeated throughout by the mistaken assumption that Plaintiff has "received all the royalty or consideration which he claims for the use of his invention" when defendant has paid the wholesale price on the article.

The foregoing considerations show this to be a falsity.

Chaffee v. *Boston Belting Company, 22 How., 217.*

This case is next referred to by Counsel for Defendant. It was a writ of error in an action for trespass on the case under an extension of the Goodyear Rubber Patent to enjoin defendants, who, having begun the use of the invention during the original term of the patent, claimed the right to continue under the extension.

The Court held that as there was no proof the defendants had ever bought the right from the patentee under the original term, but were naked infringers, they had no right under the extended term.

The language quoted is therefore *dicta*. It also was written with reference solely to an unconditional or unrestricted sale.

Morgan Envelope Company v. *Albany Paper Company, 152 U. S., 425.*

This is the next case considered by Counsel for Defendant. This case is referred to in Henry *v.* Dick as the "Paper Roll Case," and is discussed at page 379, foot of first column. Justice Lurton says of this case:

> "But it has no application to the question here presented. That is manifest when the case is attentively examined. First, because here the ink and other supplies used in the operation of the Complainant's rotary mimeograph patent were not made elements of the patent, as in the Paper Roll Case; and, second, the toilet paper fixture in the Paper Roll Case was not sold with the license restriction, &c. . . . One who bought subject to no such restrictions acquired the right to use the fixture with any paper."

Therefore the language quoted by Counsel for Defendant was used with reference to an *unrestricted* sale, and has no bearing on the present case. Moreover, such language contains the qualification "that the patentee having once received his royalty," which is a condition that, as we have shown, does not exist in the present case. For, not only was the sale restricted in the present case, but the Plaintiff cannot be said to have received its royalty in the full sense, as we have pointed out in connection with the discussion of Adams *v.* Burke, page 4 of this brief.

Keeler v. *Standard Folding Bed Company, 157 U. S., 659.*

This case is quoted extensively by Counsel for Defendant (pages 9 to 13). It is one of those cases referred to in Henry *v.* Dick by Mr. Justice Lurton, page 368, first column, in the following language:

> "In the cases cited above, as well as the leading case of Bloomer *v.* McQuewan, 14 How., 539, 14 L. Ed., 532, the statement that a purchaser of a patented machine has an unlimited right to use it for all the purposes of the invention, so long as the identity of the machine is preserved, was made of one who bought unconditionally; that is, subject to no specified limitation upon his right of use."

This decision, therefore, has no bearing on the case at bar, and the language quoted had no reference to the distinction in the present case.

In the Folding Bed case the assignee of the monopoly for the State of Michigan sold folding beds by an *unconditional* sale to one who sold beds in Massachusetts. The assignee of the State of Massachusetts sought to enjoin such sale, but

it was held that, as the sale was completed in Michigan, and as it was unconditional, the bedsteads had passed outside the monopoly and there was no violation of rights in Massachusetts. The italicized paragraph of the quotation in Defendant's brief does not apply to the present case, because it refers to one who sold "for a satisfactory compensation," whereas Plaintiff, in the case at bar, has not received the compensation required, as part of that compensation was the condition that the purchaser should not cut the retail price on the patented article—a condition which has a money value to the Plaintiff. This is explained above in connection with the case of Adams *v.* Burke, page 4 of this brief.

At the foot of page 12 Counsel for Defendant cites the Folding Bed Case as an authority for the contention that Plaintiff should have sued upon the contract and not upon the tort. The entire language of the decision bearing on this point is the following:

> "Whether the patentee may protect himself and his assignees by special contracts brought home to the purchasers is not a question before us, and upon which we express no opinion. It is, however, obvious that such a question would arise as a question of contract and not as one under the inherent meaning and effect of the patent laws."

To this we reply: First, as the case there being decided was one of unrestricted sale and there was no contract, this reference to contract rights is mere *dicta*. Second, the Supreme Court in the later case of Henry *v.* Dick decided (fourth paragraph of the syllabus) that the patentee may elect to sue for an infringement of the patent, although he might have sued on the broken contract or brought a Bill to declare a forfeiture of the li-

censee's rights for breach of the implied covenant. The Court, in the Henry *v.* Dick case, says, page 366, middle first column:

> "We come, then, to the question whether a suit for infringement is here presented.
>
> "That the license agreement constitutes a contract not to use the machine in a prohibited manner is plain. That defendants might be sued upon the broken contract, or for its enforcement, or for the forfeiture of the license, is likewise plain. But if, by the use of the machine in a prohibited way, Miss Skou infringed the patent, then she is also liable to an action under the patent laws for infringement."

Third, there is here no question of "special contract" intended to protect the patentee in the use of a thing which has once become freed from his patent monopoly. On the contrary, Plaintiffs' package is never freed from the patent monopoly, so far as any right of the purchaser to sell it at a retail price below One Dollar. Any sale in violation of that condition is an act of infringement, the licensee becoming, so far as such prohibited sale is concerned, a stranger to the patent monopoly.

Bement v. *National Harrow Company, 186 U. S., 70.*

This decision is quoted in Henry *v.* Dick (page 372, colum 2) as an authority for the patentee's right to restrict the price at which the article shall be sold, and our reference to this case in our brief (page 9) is merely a quotation from Henry *v.* Dick.

Counsel for Defendant contends that the Supreme Court in the Bobbs-Merrill Case, 210 U. S., 339, held this case does not bear on a patentee's

right to control the resale price. The entire discussion of this case in the Bobbs-Merrill Case is in the following paragraph:

> "In E. Bement & Sons *v.* National Harrow Company, *supra*, the suit was between the owners of the letters patent as licensor and licensees seeking to enforce a contract as to the price and terms on which the patented article might be dealt with by the licensee. The case did not involve facts such as in the case now before us, and concerned a contract of license sued upon in the state court, and, of course, does not dispose of the questions to be decided in this case."

The Bobbs-Merrill Case was a copyright and not a patent case. It is fully discussed in this brief under a separate heading.

Whatever the Court may have held concerning the Bement case in the Bobbs-Merrill case, it certainly held in Henry *v.* Dick that the Bement case was an authority for the right of a patentee to restrict the price at which his article should be sold.

We have shown in our discussion of the case of Adams *v.* Burke, page 4 of this brief, that under the circumstances of the present case the article never passes outside the monopoly, that portion of the monopoly which consists in the right to forbid the sale of the article below One Dollar still remaining in force.

That Mr. Justice Peckham, in the Bement Case, was not making the distinction which the brief for Defendant alleges (foot page 13) will be seen by the following full quotation, which includes the preamble to the partial statement quoted in Defendant's brief:

> "The provision in regard to the price at which the licensee would sell the article man-

> ufactured under the license was also an appropriate and reasonable condition. It tended to keep up the price of the implements manufactured and sold, but that was only recognizing the nature of the property dealt in, and providing for its value so far as possible. This the parties were legally entitled to do. The owner of a patented article can, of course, charge such price as he may choose, and the owner of a patent may assign it or sell the right to manufacture and sell the article patented upon the condition that the assignee shall charge a certain amount for such article."

It will be seen that this statement in its entirety is no authority for the contention that the sale of an article under a license restriction as to the resale price frees that article from the monopoly.

In the Bement case the Supreme Court beyond question recognized that the patentee's monopoly included the right to fix the price at which his article should be sold as a broad proposition.

Cortelyou v. *Johnson, 207 U. S., 196.*

The language immediately following the quotation from this case in Defendant's brief (page 14) is as follows:

> "So although—'if one maliciously interferes in a contract between two parties, and induces one of them to break that contract to the injury of the other party, the party injured can maintain an action against the wrongdoer'—Angle *v.* Chicago, St. Paul, &c., Railway (151 U. S., 1, 13), it is also unnecessary to determine whether this states the full measure of liability resting upon a party interfering and inducing the breaking of a contract, for we concur in the views expressed by all the judges of the court of appeals that *there is no sufficient evidence of notice.*" (Italics ours.)

This quotation shows that so far as the evidence went, the sale in Cortelyou *v.* Johnson was to be treated as an *unrestricted* sale. It was so held in Henry *v.* Dick, page 377, column 2.

Here again, therefore, is no authority for Defendant's contention that a sale of a patented article under a license restriction borne by that article, and known to the purchaser, frees the article from the restrictions. Counsel again confuses the property right in the materials of which the article is composed with the right to use or sell that article in violation of a reserved portion of the monopoly.

Patterson v. *Kentucky, 97 U. S., 501.*

This case is discussed in Henry *v.* Dick, page 372, column 1, and is referred to in Bement *v.* National Harrow Company, and also in Heaton-Peninsula Company *v.* Eureka Specialty Company, in the former of which the right of the patentee to impose conditions on the sale of his article, and in the latter of which upon the use of his article were sunstained, and were distinguished from Patterson *v.* Kentucky.

We recognize and have stated in connection with the case of Adams *v.* Burke, page 4 of this brief, the distinction between the right of property in the physical substance of a machine or other embodiment of the invention, and the right in the monopoly granted by the patent. The Defendant's right in the physical materials of the packages of Sanatogen which he bought is unquestion. He has, however, no right to use those materials in violation of the reserved portion of monopoly, namely, to sell the package at a retail price lower than One Dollar.

Bobbs-Merrill Company v. *Straus, 210 U. S., 339.*

Counsel for Defendant contends that this case is "undistinguishable from the case at bar" and a controlling authority in the present case.

It is to be noted that the Supreme Court in Bobbs-Merrill case expressly refused to express an opinion as to whether, under the state of facts in the present case, its decision would be the same as it was in the Bobbs-Merrill case.

The Court says in 28 Sup. Ct. Rep., p. 724, foot of first column, *et seq.*:

> "If we were to follow the course taken in the argument, and discuss the rights of a patentee, under letters patent, and then, by analogy, apply the conclusions to copyrights, we might greatly embarrass the consideration of a case under letters patent, when one of that character shall be presented to this court."
>
> "We may say in passing, disclaiming any intention to indicate our views as to what would be the rights of parties in circumstances similar to the present case under the patent laws, that there are differences between the patent and copyright statutes in the extent of the protection granted by them. This was recognized by Judge Lurton, who wrote a leading case on the subject in the Federal Courts (Button Fastener Case, *supra*), for he said in the subsequent case of John D. Park & Sons Co. *v.* Hartman, 12 L. R. A. (N.S.) 135, 82 C. C. A. 158, 153 Fed. 24:
>
> 'There are such wide differences between the right of multiplying and vending copies of a production protected by the copyright statute and the rights secured to an inventor under the patent statutes, that the cases which relate to the one subject are not altogether controlling as to the other.' "

The Supreme Court in the Bobbs-Merrill case held that the "main purpose" of the copyright statute was "to secure the right of multiplying copies of the work" (p. 726, second column, first full paragraph). The Court held, in effect, that the "sole right to vend" was incidental to this main purpose. The Court says, in the following sentence:

> "True, the statute also secures, *to make this right of multiplication effectual,* the sole right to vend copies of the book, the production of the author's thought and conception." (Italics ours.)

The full text at the point referred to is as follows:

> "In our view the copyright statutes, while protecting the owner of the copyright in his right to multiply and sell his production, do not create the right to impose, by notice, such as is disclosed in this case, a limitation at which the book shall be sold at retail by future purchasers, with whom there is no privity of contract. This conclusion is reached in view of the language of the statute, read in the light of its main purpose to secure the right of multiplying copies of the work—a right which is the special creation of the statute. True, the statute also secures, to make this right of multiplication effectual, the sole right to vend copies of the book, the production of the author's thought and conception."

The Bobbs-Merrill case is discussed in Henry *v.* Dick (pp. 377 and 378).

The Court says (p. 378, second column):

> "While there are resemblances between the right of the author to 'vend' his copyrighted production, and of the patentee to 'vend' the patented thing, the inherent difference between the production of an author, be it a

> book, music, or a picture, and that of an inventor, be it a machine, a process, or an article, is so manifest that the exclusive right of one to multiply and sell was declared sufficient to give him that exclusive right to his writings purposed by the Constitution. To the inventor, by Sec. 4884, Revised Statutes (U. S. Comp. Stat. 1901, p. 3381), there is granted 'the exclusive right to make, *use*, and vend the invention or discovery.' This grant, as defined in Bloomer *v.* McQuewan, 14 How. 549, 14 L. ed. 537, 'consists altogether in the right to exclude everyone from making, *using*, or vending the thing patented.' Thus, there are several substantive rights, and each is the subject of subdivision, so that one person may be permitted to make, but neither to sell nor use, the patented thing. To another may be conveyed the right to sell, but within a limited area, or for a particular use, while to another the patentee may grant only the right to make and use, or to use only for specific purposes."

The Court here recognizes the patentee's right to qualify the right to sell the patented article.

Similarity or even identity of language between the patent and copyright statutes would not make the rights granted thereby identical, for the same language used with respect to different subjects matter may mean entirely different things, and the Court in the above quoted language, in effect, says this of the rights to vend granted by the two statutes.

The Supreme Court in the Bobbs-Merrill case and in Henry *v.* Dick pointed out that the copyright statute grants only two substantive rights:

1. The main right to multiply, and (2) the incidental right to vend, but it says in the above quoted portion of Henry *v.* Dick as to the Patent Statute, there is granted "exclusive right to (1) make, (2) use, and (3) vend the invention or discovery." The Court continues:

> "Thus, there are several substantive rights, and each is the subject of subdivision, so that one person may be permitted to make, but neither to sell nor use the patented thing."

These three separate rights of making, using and selling granted the inventor by the Patent Statute have always been treated as co-ordinate rights and never been treated as of different rank.

As above pointed out the Supreme Court in the Bobbs-Merrill case expressly recognizes the patentee's right to restrict the right to sell the patented article.

In Henry *v.* Dick (p. 371, second column, first full paragraph) it is stated:

> "If the patent be for a machine, the monopoly extends to the right of making, selling and using, and these are separable and substantive rights. In Bloomer *v.* McQuewan, 14 How., 539, 547, 14 L. Ed. 532, 536, it is said that the grant is of 'the right to exclude everyone from making, using or vending the thing without the permission of the owner.'"

Again in

> Adams *v.* Burke, 17 Wall., 453,

the Court by Mr. Justice Miller says:

> "The right to manufacture, the right to sell, and the right to use, are each substantive rights, and may be granted or conferred separately by the patentee."

In Bement *v.* National Harrow Co., the right to control the sale of the patented articles was expressly treated as co-ordinate to the right to manufacture. The Court says:

> "These contracts directly affect, *not as a mere incident of manufacture,* the sale of the implements all over the country, and the question arising is whether the contracts which thus affect such sales are void under the Act of Congress."

In the Bath Tub decision, Standard Sanitary Mfg. Co. *v.* The United States of America, rendered in November, 1912, the Supreme Court could have decided that the patentee had no right to restrict the retail price at which his article should be sold, but the Court made no such holding.

The cases might be multiplied indefinitely.

Thus the right of sale is always treated as coordinate with the right to make and use in the patent cases, while as decided in the Bobbs-Merrill case, the right of sale under the copyright statute is merely incidental to the right of duplication.

We again call attention to our discussion above in connection with the case of Adams *v.* Burke, page 4 of this brief, wherein we showed that the wholesale price is not the full consideration for which Plaintiffs sold the patented packages.

The Court of Appeals for the Second Circuit in the Bobbs-Merrill case, 147 Fed. Rep., 15, 23, sets forth the differences between the rights of the inventor under the Patent Statute, and the rights of the author in the Copyright Statute, in the following language:

> "In view of the conclusion reached, it is unnecessary to express any opinion as to the scope of such attempted restrictions in the case of patented articles. It may be said generally, however, that there is such a distinction between rights of copyright and patent rights that the decision of cases under one class would not necessarily be controlling in

> the other class. The protection afforded by the patent law is broader in the case of patents than in that of copyright. By a grant of copyright the owner of the work acquires the exclusive right of multiplication of copies; by the grant of a patent the patentee acquires the exclusive right to make and use the thing patented. The patent law protects the production and use of the creative conception reduced to practical shape in various forms; the copyright law protects the publication of copies in the form or substance of the particular creative conception in which it has been expressed by its author. The right secured by the copyright act is 'the right to that arrangement of words which the author has selected to express his ideas,' Holmes *v.* Hurst, *supra*.
>
> "The statutory right to make a patented article and to prevent others from making it is entirely distinct from the further statutory right to use, and therefore to control the use of, the thing made.
>
> "Furthermore, the statute permits the patentee to sub-divide his rights, and the common law protects him against any infringement of any part thereof. The copyright statute provides only for the assignment of the right as a whole, and, in terms, protects against infringement by unlawful publication."

There are, as above pointed out, vital differences between the right to vend of the inventor and the right to vend of the author. These may be illustrated by comparing the situation of the author in the Bobbs-Merrill case with that of the patentee in the Bauer case.

If your Honors went to a bookstore to buy a certain book, you would know what you wanted and the dealer could not persuade you to take another book, saying it is just as good, his motive being, for instance, that he would make a larger

profit on the substituted book. On the other hand, if your Honors went to Defendant's drugstore to purchase Plaintiffs' Sanatogen, and you happened to have some confidence in Defendant, and he advised you that another food-medicine was equally as good, and especially if it were equally as good and cheaper, your Honors, or at least the average man, would be likely to take the substitute. This substitution of a cheaper article would be possible in the case of Plaintiffs' patented article because the layman is not a judge of the comparative merits of medicinal or food preparation (and in general mechanical things to which patents relate), although it would be impossible, in the case of the author's book, because most readers would have definite ideas about the book they wanted to buy and would be in search of a particular book and not looking for what might be called "a dose" of biography, or history or political-economy.

Defendant would be tempted to make this substitution if his actual profit were greater on the substituted article than Plaintiffs' article, as it might be, even though the substituted article were at a lower price. Plaintiffs would thus lose in the volume of its sales. Druggists who are inclined not to cut the price, would be tempted to cut it, and in many cases would cut it to meet Defendant's competition. This would further lessen the volume of Plaintiffs' sales. It would also tempt Plaintiff to reduce the cost of manufacture so as to sell its article at a lower price, and such reduction would be most likely to be made by using cheaper materials to manufacture Sanatogen, which would result in a harm to the public and in an injury to the reputation of Sanatogen, and ultimately in lessened sales.

It will thus be seen that, because of the differences in the nature of a patented article and an

author's book, there are vital differences in what is involved in "vending" under the two statutes.

Further, it has always been held that an author must sell his copyright either in the book (or in the dramatic rights) as a whole, while the patentee may subdivide this power of selling in many different ways. The patentee, for instance, must often necessarily grant the right to sell his invention only in limited territories. He often grants the right to sell his invention in a single county to one individual, and in other counties to other individuals. In this way he deals with a considerable number of individuals, each requiring but little capital, and having his attention fixed on a single county, so that that county is thoroughly worked; whereas he would otherwise have to find someone with capital enough to adequately cover the entire country and there would then be but comparatively superficial attention given to any one county. Such power to subdivide the right to vend, granted by his patent, has, as your Honors know, been repeatedly upheld. On the other hand, as stated in the above quotation from the Court of Appeals in the Bobbs-Merrill Case, 147 Fed. Rep., p. 23, the author can only assign his right as a whole. He could not subdivide the territory in any such way.

See, also, Crown Co. *v.* Standard Brewery, 174 Fed., 258.

In three of the following cases maintaining the right of the patentee to impose price restrictions upon the sale of the patented article, all of which decisions were rendered since the Bobbs-Merrill case, the Bobbs-Merrill case is expressly held not to apply.

The Fair *v.* Dover Mfg. Co., 166 Fed., 117, C. C. A. 7th Circuit.

Automatic Pencil Sharpener Co. *v.* Goldsmith Bros., Judge Lacombe, 190 Fed. 205; C. C. S. D., N. Y.

Indiana Mfg. Co. *v.* Nichols & Shepher Co., 190 Fed. 579, C. C. E.D. of Michigan—Judge Dennison.

Thomas A. Edison *v.* Smith Mercantile Mfg. Co., 188 Fed. 925, C. C. W. D. of Michigan—Judge Dennison.

Waltham Watch Co. *v.* Keene, 191 Fed. Rep., p. 855—Judge Coxe.

We, therefore, submit that the Bobbs-Merrill decision *does not protect the Defendant.*

Henry v. *Dick, 32 Sup. Ct. Rep., 364.*

Counsel for Defendant first seeks to distinguish from this case by setting up a difference between the grant of the right to use, and that of the right to vend, and he quotes Mr. Justice Clifford in Mitchell *v.* Hawley, who directed attention to what he termed "the well grounded distinction between the grant of the right to make and vend the patented machine and the grant of the right to use it," which he said "was first satisfactorily pointed out by the late Chief Justice Taney with his accustomed clearness and precision."

Chief Justice Taney's decision, referred to by Mr. Justice Clifford, was the case of Bloomer *v.* McQuewan, which we have above discussed.

The case of Bloomer *v.* McQuewan was one of a patent whose original term had been twice extended, the second extension having been assigned to one Wilson. Bloomer purchased from Wilson the exclusive right to make, use and sell the patented machines in the Pittsburg district. McQuewan, during the term of the first extension, had purchased of the owner of such extension the

right to construct and use a certain number of machines in the Pittsburg district, there being no restrictions whatever upon him. Under the authority of Wilson *v.* Rousseau it was held that McQuewan's machines having been built without any restrictions as to the time of use, they had passed without the monopoly during the first extension and were, therefore, free from monopoly of the second extension. Chief Justice Taney was seeking to interpret the clause of the 18th Section of the Act of 1836, reading as follows:

> "And the benefit of such renewal shall extend to the assignees and grantees of the right to use the thing patented, to the extent of their respective interests therein."

Chief Justice Taney uses the following language:

> "Now, the act of 1836, in express terms, gives the benefit of the extension authorized by that law to the assignees and grantees of the right to use the thing patented to the extent of their respective interests therein. And under this provision it was decided in the case of Wilson *v.* Rousseau, 4 How., 688 (4 Am. & Eng. 436), that the party who had purchased and was using this planing-machine during the original term for which the patent was granted, had a right to continue the use during the extension; and the distinction is there taken between the grant of the right to make and vend the machine, and the grant of the right to use it.
>
> "The distinction is a plain one. The franchise which the patent grants consists altogether in the right to exclude every one from making, using, or vending the thing patented, without the permission of the patentee. This is all that he obtains by the patent. And when he sells the exclusive privilege of making or vending it for use in a particular place, the purchaser buys a portion of the fran-

chise which the patent confers. He obtains a share in the monopoly, and that monopoly is derived from and exercised under the protection of the United States; and the interest he acquires necessarily terminates at the time limited for its continuance by the law which created it. The patentee cannot sell it for a longer time; and the purchaser buys with reference to that period, the time for which exclusive privilege is to endure being one of the chief elements of its value. He therefore has no just claim to share in a further monopoly subsequently acquired by the patentee. He does not purchase or pay for it.

"But the purchaser of the implement or machine, for the purpose of using it in the ordinary pursuits of life, stands on different ground. In using it, he exercises no rights created by the act of Congress, nor does he derive title to it by virtue of the franchise or exclusive privilege granted to the patentee. The inventor might lawfully sell it to him, whether he had a patent or not, if no other patentee stood in his way. And when the machine passes to the hands of the purchaser, it is no longer within the limits of the monopoly. It passes outside of it, and is no longer under the protection of the act of Congress. And if his right to the implement or machine is infringed, he must seek redress in the courts of the State, according to the laws of the State, and not in the courts of the United States, nor under the law of Congress granting the patent. The implement or machine becomes his private, individual property, not protected by the laws of the United States, but by the laws of the State in which it is situated. * * *

"It is doubtless upon these principles that the act of 1836 draws the distinction between the assignee of a share in the monopoly, and the purchase of one or more machines, to be used in the ordinary pursuits of business; and that distinction is clearly pointed out and

maintained in the case of Wilson *v.* Rousseau, before referred to."

From the foregoing it is clear that the distinction Chief Justice Taney was drawing was between an assignee of a portion of the monopoly and one who had merely purchased a machine which was a specimen of the patented invention. He was pointing out that the quoted clause of the Statute did not preserve, under the extension of the patent, the rights of assignees of the original patent (for the object of the law was to grant the extension to the original inventor, because he had not been properly rewarded) but that the quoted section only sought to preserve to purchasers of the patented machines the right to use those machines during the extension. The distinction he was seeking to make was, therefore, between one who owned a portion of the patented monopoly, and one who merely owned one of the machines embodying the patented invention. He was not drawing a distinction between that portion of the monopoly which consisted of the right to exclude all others from using the patented machines, and that portion of the monopoly which consisted of the right to exclude all others from selling the patented machines. This is made clearer by the following quotation from Robinson on Patents, Vol. 2, Sec. 763, p. 521:

"* * * On the other hand, the transfer of an exclusive right to make *and* use *and* sell, or, what is of the same effect as to all classes of inventions except arts or processes, of the exclusive right to make and sell the invention, or of an undivided interest in such exclusive right, vests the entire invention and consequently the monopoly also in the alienee, either alone or jointly with the alienor, and hence is an assignment."

Mr. Robinson here shows that the exclusive right to make and sell is the same, in effect, "as to all classes of inventions except arts or processes" as the exclusive right to make *and* use *and* sell. As Chief Justice Taney was speaking of a machine, he might just as well have said "make and use and sell" as to have said "make and sell."

The quotation which Counsel for Defendant takes from Mr. Justice Lurton in Henry *v.* Dick, in an attempt by parallel columns (p. 27) to put Counsel for Plaintiff in opposition to Mr. Justice Lurton, is simply the quotation which Mr. Justice Lurton was making from Mr. Justice Clifford when the former was discussing the case of Mitchell *v.* Hawley (p. 368, second column), and Mr. Justice Lurton makes absolutely no distinction of any sort between the patent's power over his right to limit the use of his invention, and his power over the right to limit the sale of specimens of his patented invention.

The alleged quotation which Counsel for Defendant makes from Mr. Justice Lurton in Henry *v.* Dick, in an attempt, by parallel columns (page 27) to put Counsel for Plaintiff in opposition to Mr. Justice Lurton is, we respectfully submit, misleading. This quotation puts words in Mr. Justice Lurton's mouth which the latter did not use in the form quoted, the entire sentence appearing (page 368 of 32 Sup. Ct. Rep., second column) is as follows:

> "Mr. Justice Clifford before stating the facts upon which the judgment must rest as to the right of Mitchell as the purchaser of the machines to continue their use after the expiration of the original term of Taylor's patent, and after directing attention to what he termed 'the well grounded distinction between the grant of the right to make and vend

> the patented machine and the grant to use it,' which, he says 'was first satisfactorily pointed out by the late Chief Justice Taney with his accustomed clearness and precision,' says: 'Purchasers of the exclusive privilege of making or vending the patented machine hold the whole or a portion of the *franchise* which the patent secures, depending upon the nature of the conveyance, and, of course, the interest which the purchaser acquires terminates at the time limited for its continuance by the law which created the franchise, unless it is expressly stipulated to the contrary. But the purchaser of the implement of machine for the purpose of using it in the ordinary pursuits of life stands on different grounds, as he does not acquire any right to construct another machine, either for his own use or to be vended to another for any purpose. Complete title to the implement of machine purchased becomes vested in the vendee by the sale and purchase, but he acquires no portion of the franchise, as the machine, when it rightfully passes from the patentee to the purchaser, ceases to be within the limits of the monopoly.' "

Mr. Justice Lurton was here analyzing the decision of Mr. Justice Clifford in the case of Mitchell *v.* Hawley for the purpose of showing that that case related to an unrestricted sale and not to a restricted sale. We have shown in our analysis of Bloomer *v.* McQuewan that Chief Justice Taney was not here making a distinction between a use and a sale in the sense in which Counsel for Defendant is contending in the case at bar. We, therefore, with regret, are compelled to object to this alleged quotation in Defendant's brief on the ground that it is not an exact quotation from Mr. Justice Lurton, and that the particular in which it differs from the exact quotation has a vital defect of putting into the mouth of Mr. Justice Lurton words which he did not

say himself, and giving the erroneous impression that he made a distinction between the right to restrict a sale and the right to restrict a use.

We have shown in our discussion of the Bobbs-Merrill case that the inventor's right to exclude all others from selling is co-ordinate and equal in every respect with his rights to make and use.

Therefore the ruling in Henry *v.* Dick is as applicable to the sale of a patented machine as it is to the restriction as to its use, there being absolutely no difference in principle, and Defendant cannot, we submit, escape by this distinction.

The second distinction which Counsel for Defendant seeks to make between Henry *v.* Dick and the present case is his allegation that Dick received only part of his compensation through the sale of the article, he expecting to receive the balance through profit on the supplies for the copying machine, which Dick required the purchaser of the machine to purchase of him, but that plaintiffs received its full compensation from the jobber and has no further interest in the article.

Brief for Defendant states, foot of page 27, that Plaintiffs received by the sale "all the price they asked, claimed, ever expected to get, or are entitled to, out of the sale and use of the patented product." We have above pointed out (on pages 4 to 6 of this brief) that this is not a fact.

Defendant's cutting the price named on the license restriction is equivalent in principle to depriving Plaintiffs of a future compensation quite as tangible as the profits Dick would make on the sale of his ink and paper. When Defendant cuts the price prescribed by the license restriction he reduces his own profit on the article, and thereby makes it to his own advantage to induce a purchaser who wants Plaintiffs' article to take a substitute on which Defendant could make a greater profit than on Plaintiffs' article

at the cut price. Defendant thereby immediately reduces his own sales of Plaintiffs' article, so that Plaintiffs' immediately lose in volume of trade with Defendant. Defendant also forces other druggists in Washington to cut the price to meet his competition, thereby producing the same effect in their trade of lessening the Plaintiffs' sales. This conduct, if allowed to go on unrestrained, would force Plaintiffs to lower the wholesale price of their article so as to increase the profit on the article to the druggist and make it again desirable for him to sell the article to a purchaser who wants it, instead of trying to induce that purchaser to take a substitute, on which the druggist could derive a greater profit. This reduced wholesale price would make it a temptation, and, if carried far enough, a necessity on the part of Plaintiffs to reduce the manufacturing cost of the article, which would involve cheaper materials and less care in their preparation; for the article would then be in competition with conscienceless nostrums, and thus the public might suffer because Plaintiffs' preparation, whose usefulness has been recognized by the grant of a patent, had been forced to compete with quack medicines which, as they do not depend upon the real virtues of their ingredients, would not require the same expensiveness of materials nor care in their preparation to make them sell.

If it be argued that all the protection Plaintiffs need is the right to refuse to sell its preparation to Defendant, we reply that Defendant can still, as he is now doing, purchase the preparation from wholesalers in ways that Plaintiffs cannot trace, and carry on his price cutting.

The principle will be made more clear if it be assumed that Defendant is the only druggist in the United States having, say, a chain of stores

which substantially cover the United States. In that case, your Honors will see that if Plaintiffs could not enjoin Defendant from cutting the price, but had to resort to refusing to sell Plaintiffs' preparation to Defendant, that would be equivalent to going out of business.

The citations of Defendant from the decisions of Adams *v.* Burke, Morgan Envelope Company *v.* Albany Paper Company, and Keeler *v.* Standard Folding Bed Company, are, as we have shown above in this brief, from cases in all of which the patented article passed by an unrestricted sale. These citations, therefore, have no bearing on the present case and do not answer Plaintiffs' contentions.

Counsel for Defendant argues (foot of page 29) that Plaintiffs, having sold the package to Defendant, make the impossible reservation of the right themselves to sell the package to others at a price below One Dollar. Counsel for Defendant here overlooks the nature of the monopoly granted by the patent. That monopoly is a negative one, consisting in the right to exclude all others from any making, using or selling of the patented invention. As was said by Chief Justice Taney in Bloomer *v.* McQuewan:

> "The franchise which the patent grants consists altogether in the right to exclude everyone from making, using or vending the thing patented without the permission of the patentee. This is all he obtains by the patent."

When, therefore, Plaintiffs forbid the sale of the article at a price below One Dollar, they simply retained a portion of this right to exclude others from practicing the invention, but they did not thereby retain the positive right to step in and sell the physical materials, with whose title

they had parted. That would have been a positive action and not a negative act of exclusion or restraint.

The restriction in the case at bar is entirely analogous to the restriction in the case of Henry *v.* Dick. In Henry *v.* Dick the Plaintiff retained the right to exclude all others from using the mimeograph with paper or ink manufactured by anybody else but the Plaintiff. In the case at bar the Plaintiffs retained the right to exclude all others from selling Sanatogen at a retail price below One Dollar.

The purchaser of the mimeograph could have used it as a clothes wringer (a use physically possible to a certain extent), or could have taken its crank off and used it on another machine, or done anything whatever, except to use it as a copying machine with ink and paper purchased from others than Dick, for she had the title to the physical materials. So here, in the present case, the Defendant could use the powdered material of which Sanatogen is made to polish silverware, if that be possible, or as an ingredient for gunpowder, or he could do any other thing with it except to sell it at a retail price lower than One Dollar. Plaintiff did not reserve the right to say "I will" but to say "You shall not," which is vastly different. Counsel for Defendant, therefore, misunderstands the nature of the restriction upon the sale of the patented article when he states that Plaintiffs retained in themselves "the right to sell, not other embodiments of the patented invention at a different price, but to sell that particular embodiment of their invention (which they had sold to the Defendant) at a different price."

The restrictions are absolutely the same in principle and cannot be distinguished, and the

Supreme Court having sustained the restriction in the Dick case, it is respectfully submitted the restriction in the case at bar should be sustained. In the Bath Tub Decision, rendered in November, 1912, Standard Sanitary Mfg. Co. *v.* The United States of America, the Supreme Court sustained by implication the patentee's right to fix a retail price restriction precisely as in the present case.

We will not again discuss the Bobbs-Merrill case in connection with Henry *v.* Dick, as we have at page 13 of this brief discussed the Bobbs-Merrill case completely, including the reference to it in Henry *v.* Dick.

The immediate foregoing discussion of the nature of the price restriction also answers Defendant's fourth attempt (page 33) to distinguish the case at bar from Henry *v.* Dick.

The statement (page 34) that if Defendant had invaded any rights of the Plaintiffs it was a contractual right, has before been answered.

The Supreme Court in Henry *v.* Dick (p. 366, first column) states of the Dick restriction:

> "That the license agreement constitutes a contract not to use the machine in a prohibited manner is plain. That defendants might be sued upon the broken contract, or for its enforcement, or for the forfeiture of the license, is likewise plain. But if, by the use of the machine in a prohibited way, Miss Skou infringed the patent, then she is also liable to an action under the patent law for infringement. Now that is primarily what the bill alleged, and this suit is one brought to restrain the Defendants as aiders and abettors to her proposed infringing use.
>
> "That the patentee may waive the tort and sue upon the broken contract, or in assumpsit, is elementary."

As stated by the Court of Appeals for the Seventh Circuit in

speaking by his Honor, Judge Baker, 123 Fed. Rep., 424, at page 427:

> "The Bill directly charges appellee, a dealer, with prior knowledge of the terms on which the jobber came into possession of the machines. Whether or not appellee covenanted to be bound by the terms is not alleged, and whether or not an implied promise arose from appellee's purchase is immaterial in this case, *for the suit is not upon a promise to keep out of the reserved portion of the monopoly, but is for the trespass in entering without permission.*"

Conclusion.

Defendant's brief is based on the following misapprehensions:

1. That in parting with the title to the physical materials which composed a package of Sanatogen (while expressly reserving a portion of the patent monopoly) Plaintiffs passed the article outside of the patented monopoly;

2. That because Plaintiffs received their wholesale price of the patented article they thereby "once received all the royalty or consideration which he (they) claims out of the patented article which he (they) sells"; and

3. That under the Patent Statute there is any distinction between the right to monopolize the use and the right to monopolize the sale of the patented articles.

Absolutely the only difference between Henry *v.* Dick and the present case is that in the present case the suit is against a purchaser himself,

whereas in Henry *v.* Dick the suit was against one who induced the purchaser to violate the injunction, and who was enjoined as a contributory infringer.

The Defendant has been unable to cite any published decision of any Court, high or low, American or English, which has refused to maintain a price restriction of a patented article which was duly brought to the notice of the purchaser, whereas we have cited many cases, both American and English, sustaining precisely that right under precisely the circumstances of the present case (both of purchases from a jobber and purchases directly from the patentee), and the Supreme Court in Henry *v.* Dick enumerates many of them.

We have also cited four cases which have been decided by the lower Courts since the decision of the Supreme Court in Henry *v.* Dick, in all of which price restrictions like those in the present case have been sustained, and in three of which the Bobbs-Merrill case, which is so strongly relied upon by Defendant, is expressly held not to apply to a case like the one at bar.

The Supreme Court itself in the Bath Tub decision, Standard Sanitary Mfg. Co. *v.* The United States of America, decided in November, 1912, sustained by implication the patentee's right to restrict the retail price, precisely as in the present case, for it could have rested its decision on a denial of such right.

It is respectfully submitted the decision of the Court below should be reversed, with instructions to overrule the demurrer and order the Defendant to answer.

Respectfully submitted,

EDWIN J. PRINDLE,
Counsel for Plaintiff-Appellant.